



23rd
ANNIVERSARY ISSUE

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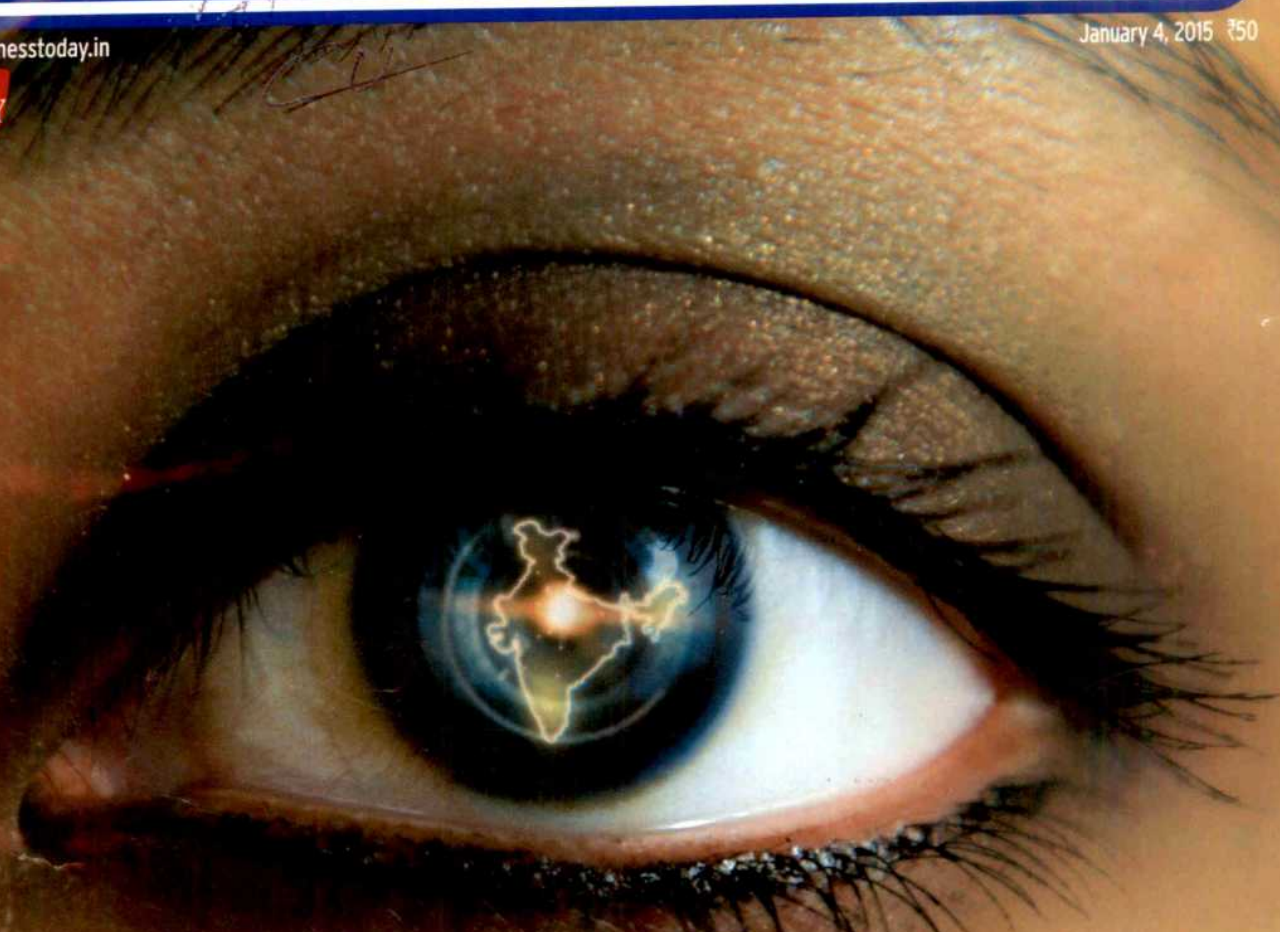
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January 4, 2015 ₹50

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IDEAS FOR A NEW INDIA

BY Clayton Christensen | K.V. Kamath | Vinod Rai | Shiv Nadar |
Pankaj Ghemawat & Steven A. Altman | Rama Bijapurkar & Rajesh Shukla |



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Arun Dish at RK Mission, Chennai for Community Cooking with Heat Storage



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Paraboloid Dishes at Synthokem Labs, Hyderabad for Drug Processing

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Gajraj Cleaners, Ahmednagar using Solar Steam for laundry

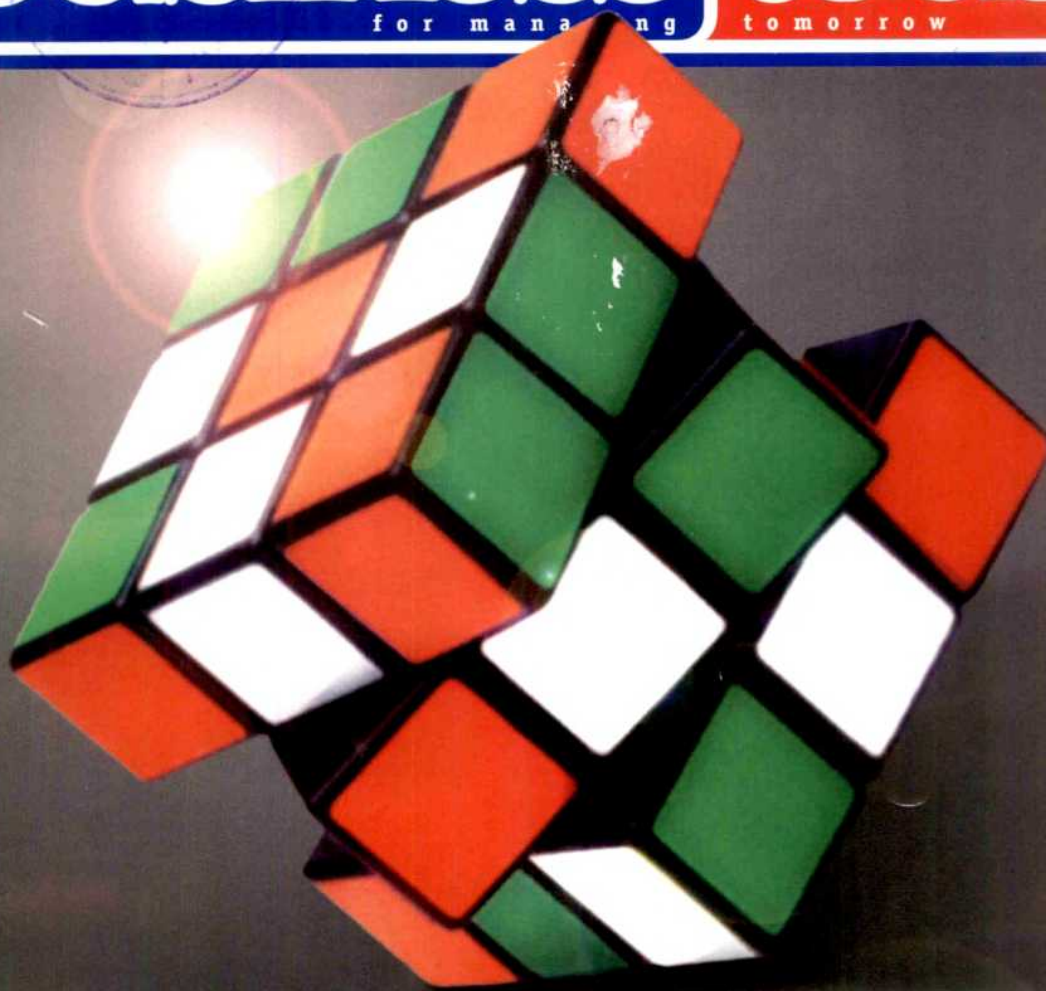
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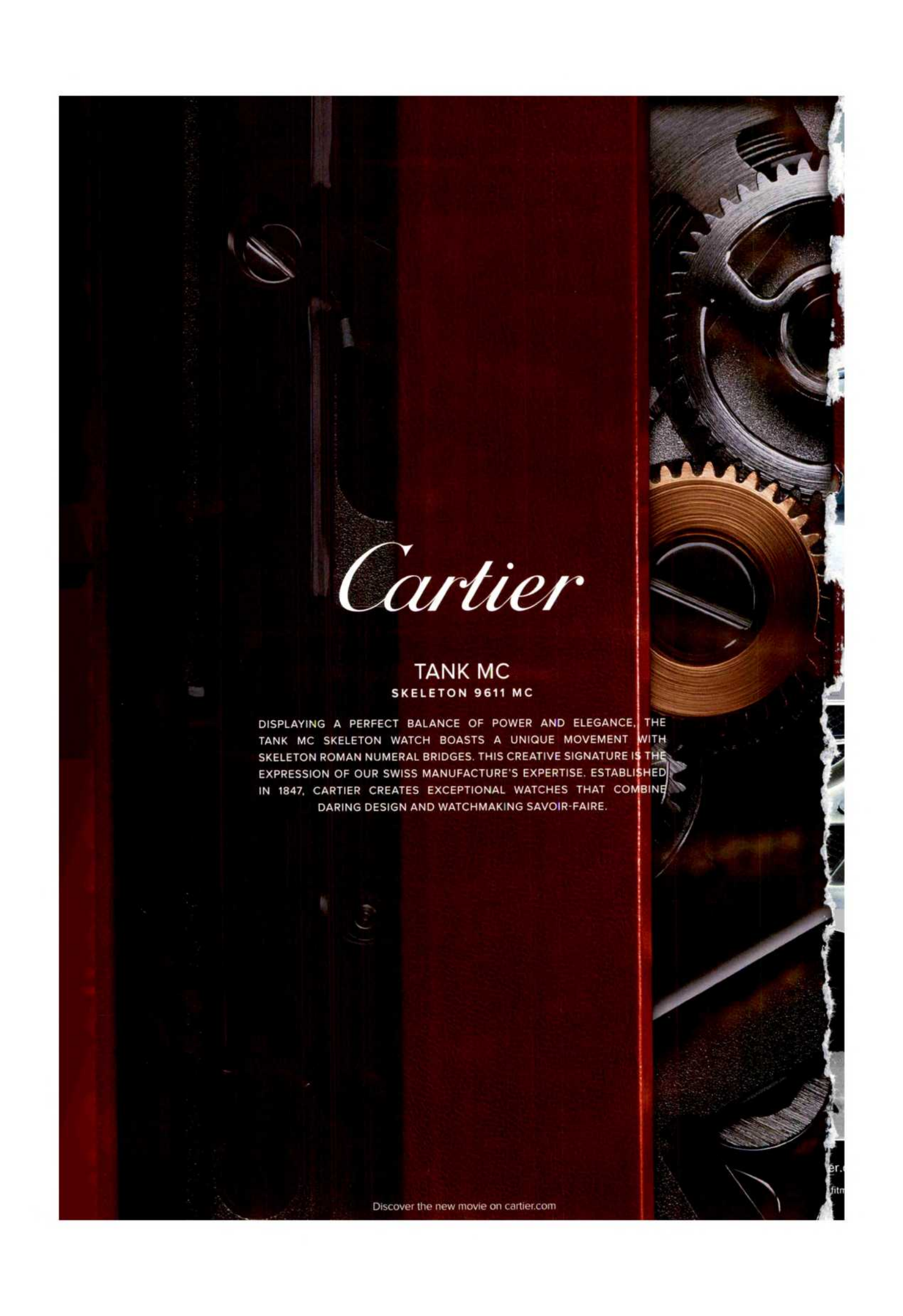
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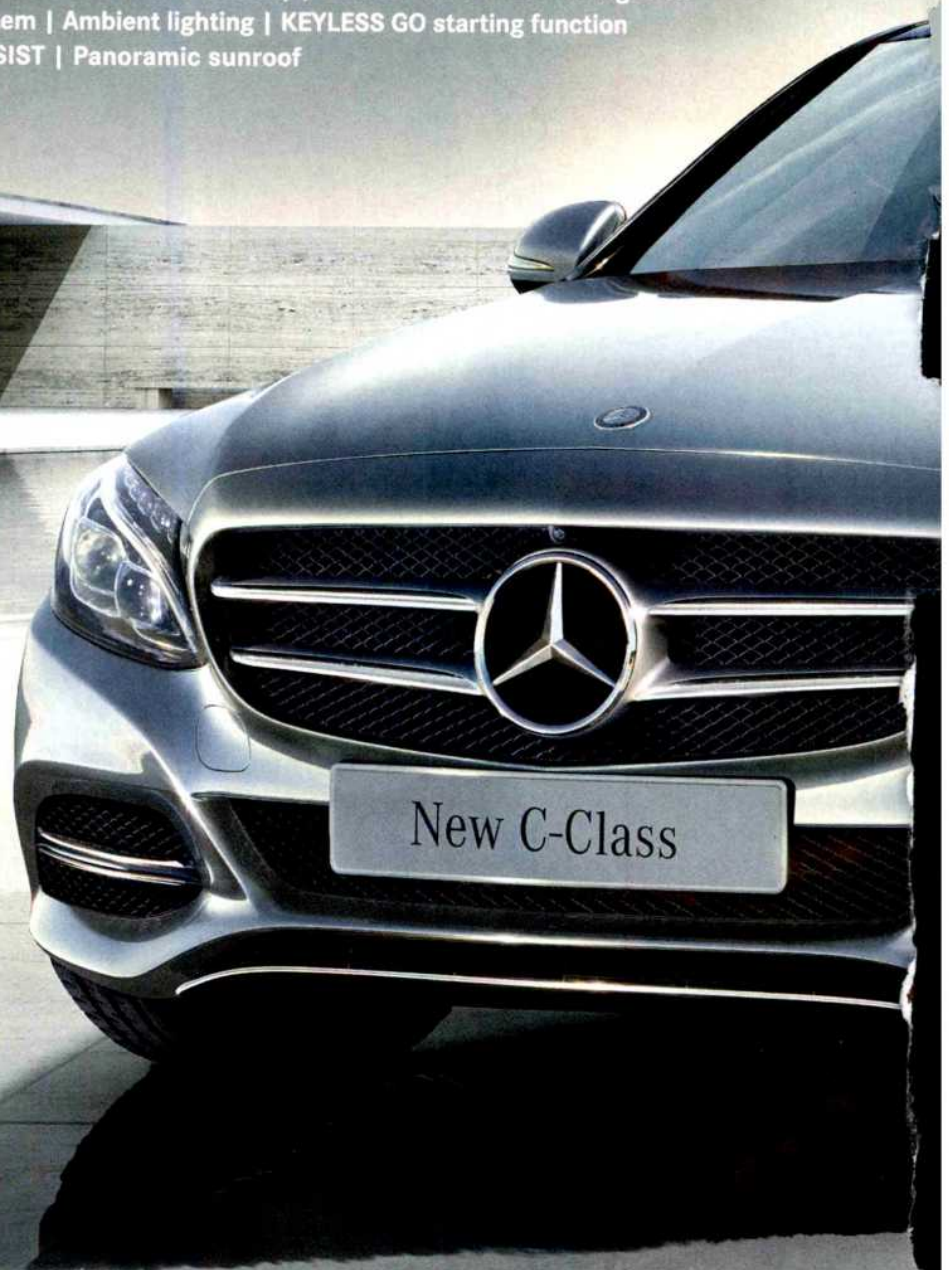


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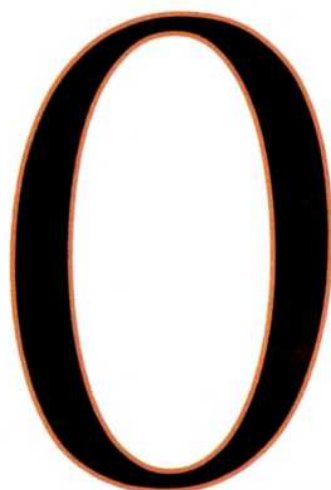


BT ANNIVERSARY **2015**



Letter from the
Editor-in-Chief

THE LONG VIEW, REALLY



Our anniversary issue comes at a time when the big story in the country is the Economy. With the new government now in place for the last six months the country is impatiently waiting for the revival of the economy after several dismal years. It is, therefore, a good time for us to review the state of the economy and its future. At the risk of immodesty, we have been prescient both in calling out good times and bad. In February 2011, for instance, the chest-thumping over India's high GDP growth – averaging 9.35 per cent in the preceding four quarters – was still on when we put on the cover a story on how the economy had started decelerating. Barring one, the GDP expansion numbers fell or stayed flat for the 12 quarters after that “India Slowing” cover. In a recent cover story, we have pointed out that the economy seems to be turning around though a full recovery is still a year-and-a-half away. I am betting that we are right this time just as we were when we called the slowdown.

An India of change is before us. We have a ruling party with a charter for reform and a mandate to back it up. Expectations of a resurgent economy are high. There is no better evidence of that than the long queue of visiting global CEOs – Mary Barra to Jack Ma, Jeff Bezos to Mark Zuckerberg – and the scorching equity markets. The first six months of the Narendra Modi government have not exactly set the economy on fire but Prime Minister Modi and his team should not be judged in haste. The Indian economy is a very distorted one because of the sins of the past. It will take time to get the sticky fingers of the government out of business and make it a market-friendly one, but the direction taken and the noises being made by this government are the right ones.

Already, there is some good news beginning to show up on our radars. GDP growth has been 5.7 per cent and 5.3 per cent in the April-June and July-September periods – the first time in 30 months that economic expansion in two consecutive



quarters peaked over the five per cent mark. Retail inflation, measured by consumer prices, is 4.38 per cent, which is well below the target that the central bank has set for 2016, not just in the coming year. The stars are also favouring this government as crude oil prices have fallen to a five-year low with predictions they will drop further.

That set of headline numbers bodes well for India, for sure. But for growth to be sustained over several years and for the economy to be truly transformed into the powerhouse it has the potential to become, efforts need to be made to deal with multiple elephants in the room. Different parts of the economy today have strong inter-linkages. Make a change at one end and you'll feel the effect at the other. Policies, then, need a much more nuanced and multi-layered view to make them effective. So, for this anniversary issue, we decided to take a deep dive into 21 issues, which, depending on what policy options we choose, will be transformative for India in the medium to long term. Chosen right, even if some of the choices may seem contrarian, it will set the bearings right for the country as 1.2 billion Indians pin hopes on change. While zeroing in on the writers on each of these issues, we erred on the side of domain expertise over known faces. I daresay we made the right call. Sample these rich insights and prescriptions:

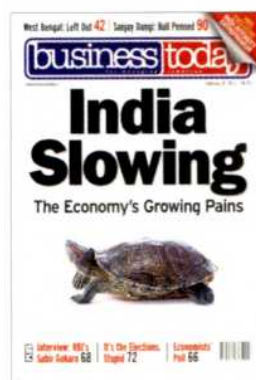
- Banker K.V. Kamath argues that the high proportion of services in India's economy is a big advantage that, in the current day wisdom which favours manufacturing, should not be kissed away.
- Private equity fund manager turned educationist Ashish Dhawan concludes that Band Aid-like fixes through skilling will not work and India will have to fix its school and college education system (don't miss the telling graphic on how South Korea avoided the middle-income trap).
- Vinod Rai, the controversial ex-government auditor, takes a step back and posits that India is not a nation of missing institutions; just that its institutions are only beginning to stand up.
- Rajan Anandan, Google's man in India, predicts a reset – of the positive kind – in India's economy as Internet access spreads deep upcountry and 100 million Indians start shopping online in a couple of years time.

These essays and 17 others – on demography, globalisation, quality, entrepreneurship, governance, natural resources, ease of doing business, and equality – make for compelling reading. In my letter in last year's anniversary issue, referring to the Chinese year of the horse, I urged India to gallop, not trot. Guess what? 2015 is the year of the ram. That augurs well for India – just the power punch we need to raise our game.

Here's wishing you a prosperous New Year in advance.



ARON PURIE



Re: Letters to the Editor



Leading the Way

This refers to BT's special issue *India's Best CEOs* (December 21). Kudos to the entire BT team for such good articles. Your eminent panel of selectors has done full justice to the final rankings based on the selection criteria. It is indeed a source of inspiration for GenNext leaders. However, quite a few readers will agree that merely statistics of profitability, capital efficiency, top-line growth, return on equity, etc., do not truly reflect the success of a CEO. There are many personal qualities of leadership that shape

the destiny of an enterprise. According to Joey Tamer, a strategic consultant to technology and media CEOs, there are 10 characteristics of a successful CEO. These include domain expertise, honour, perseverance, and patience, among others. Today we need CEOs with the above qualities to take the country forward in its quest to become a superpower.

J.S. Broca, New Delhi

Carry on Merging!

This refers to your lead Focus piece on the consolidation in the Indian banking sector, titled *United We Expand* (December 21). Bank mergers are still very few and far between in our country, as is clearly evident from the fact that there were only a dozen deals in the last one-and-a-half decade. An interesting point to be noted here is that none of these deals involved large banks, so the very fact that Kotak Mahindra Bank merged with ING Vysya Bank is a fairly big deal, and therefore I think it merited more than two pages. Nevertheless, I appreciate your attempt to put in as much information as possible despite the space constraint. Only time will tell whether banking mergers are good or bad. There still maybe a long way to go, but, at least, a start has been made.

Nita Gupta, Jaipur

Correction

The article *Gain and Pain* (December 7) misstated the amount of iron ore JSW Steel imported. It should have been 10 million tonnes. We regret the error.

Send all your comments to: editor.bt@intoday.com

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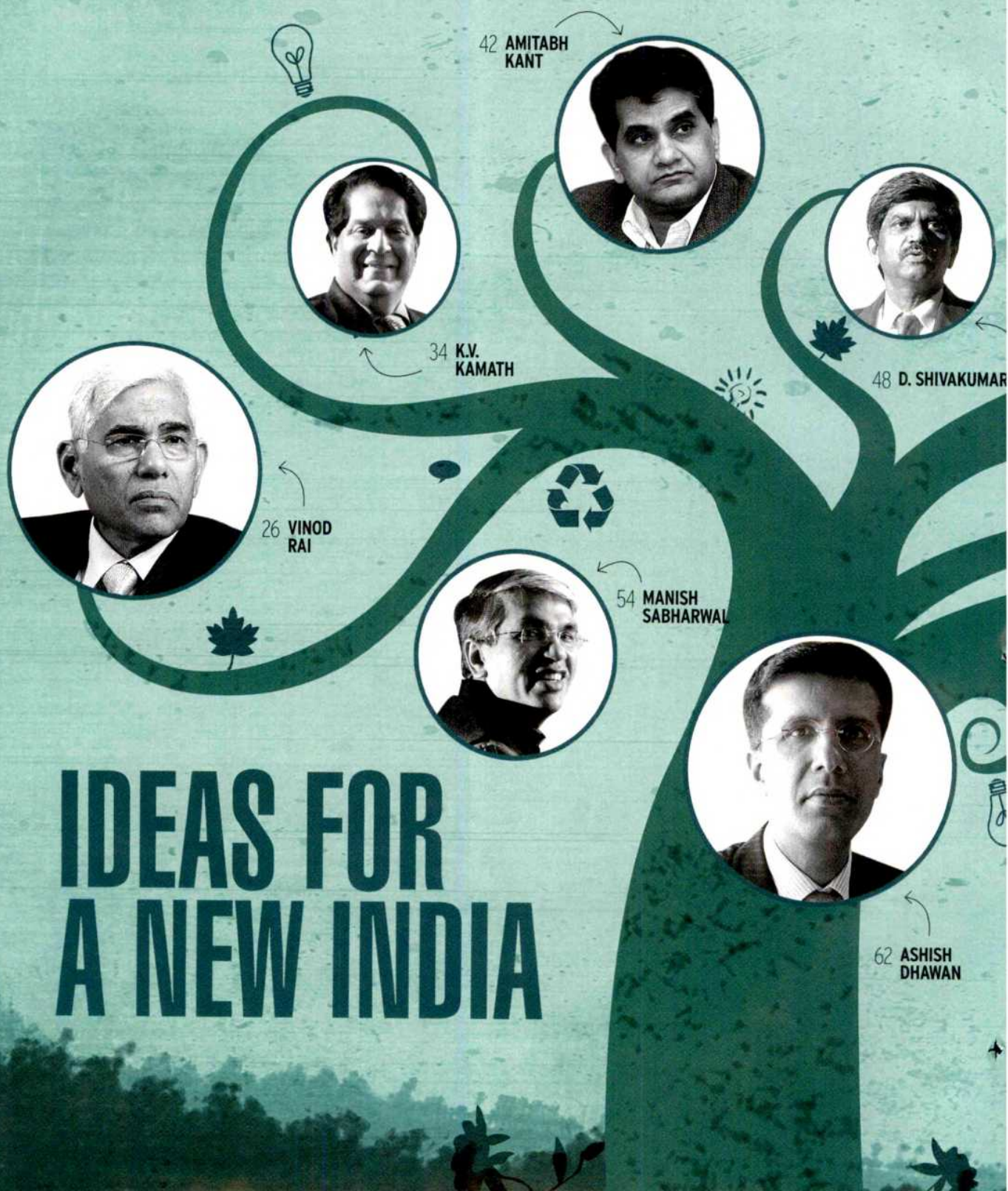
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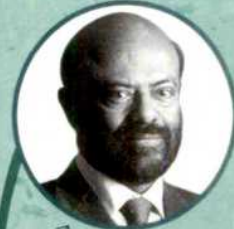
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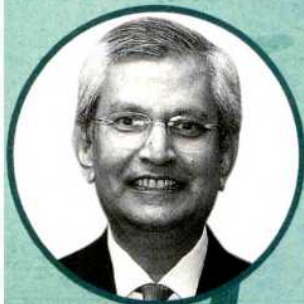
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Prison Diary

B. Ramalinga Raju gets six months jail in a Satyam Computer fraud case even as CBI case ruling awaited.

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Booster Dose

The Competition Commission of India approves the merger of Sun Pharma and Ranbaxy with some riders.

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Committed to Climate

India is playing a proactive role in climate discussions in the Peruvian capital Lima.

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GADGET REVIEWS

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Stop the Innovation Killers

Akshay Mehra of InvYramid Innovation says companies must be wary of five innovation killers that reduce the Return on Investment on innovation.

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Prepare for Tough Times

Hemant Rustagi offers suggestions to invest in a way to keep enough resources during difficult times.

businessstoday.in/investment-tips



Improving Primary Education

Sanjeev Jha of InvYramid Innovation asks whether innovative technologies and strong willpower can transform the primary education system.

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INTERVIEWS

"Britannia is a Lot More Competitive Today"

Britannia Managing Director **Varun Berry** speaks with **Ajita Shashidhar** on the changes he brought in the company since taking over, competition and his distribution strategy.

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"We need to establish UTI as an attractive employer"

Priya Ranjan, Group President and Head - HR, UTI Mutual Fund, speaks with **Shamni Pande** about how the fund house is galvanising its workforce to become more competitive.

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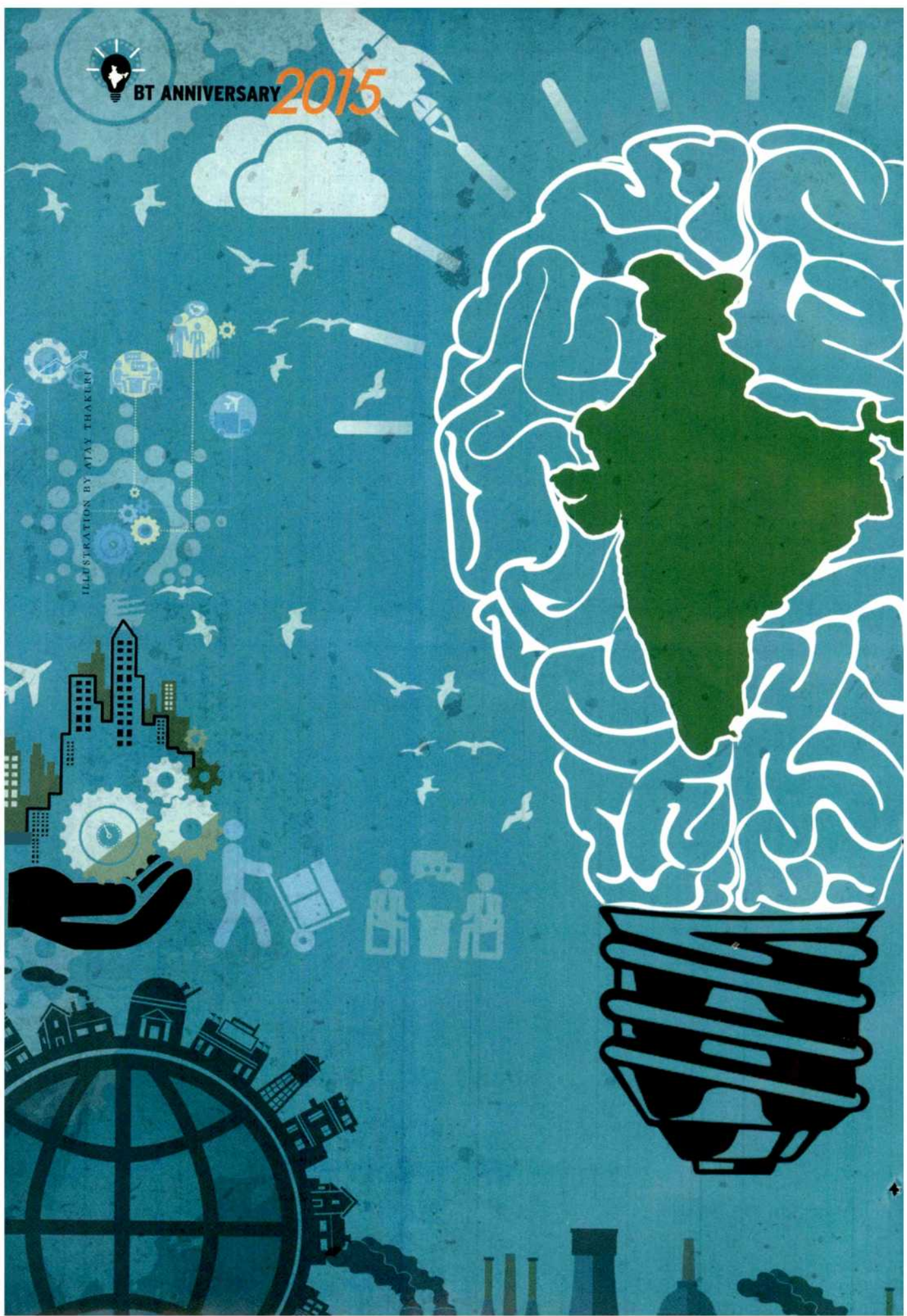


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BT ANNIVERSARY **2015**

ILLUSTRATION BY AJAY THAKUR





OVERVIEW

IDEAS FOR A NEW INDIA

I

n his book *Change by Design*, Tim Brown, CEO and President of global design company IDEO, recounts clients queuing up with their "Give me the next iPod" demand. Their number, he says, was "probably pretty close to the number of designers I've heard respond (under their breath), 'Give me the next Steve Jobs.'" Jobs famously didn't care what people around him thought and led Apple Inc. by his "people don't know what they want until you show it to them" philosophy. And how! Apple is valued at about a third of India's GDP.

If India's leadership can focus on what's good for the nation and its people ("...the next iPod") rather than whether it will be voted back to office, it has an opportunity to catapult the country from the bottom deciles of global middle-income economies. To do this, our leadership – Prime Minister Narendra Modi's government to our business captains to our civil society – will have to make and influence enlightened decisions even if some of them are bitter in the short term.

This anniversary issue is about giving direction to that decision making. The first read I'd recommend is an interview of Harvard Business School's Clayton Christensen on page 150, who talks of disruptive innovation in the Indian context. Turn then to page 34 for K.V. Kamath, Director #1 at ICICI Bank and Infosys, and Amitabh Kant, Secretary, Department of Industrial Policy & Promotion, on the services-manufacturing debate. Manish Sabharwal, Chairman, TeamLease, and Ashish Dhawan, Founder-CEO,

IF INDIA'S LEADERSHIP CAN FOCUS ON WHAT'S GOOD FOR THE NATION AND ITS PEOPLE
rather than whether it will be voted back to office, it has an opportunity to catapult the country from the bottom deciles of global middle-income economies

Central Square Foundation, give their prescriptions around India's human capital starting page 54, followed by a round-up of the sorry state of our health capital by Dr K. Srinath Reddy. Other essays that stand out include: Bharti Enterprises's MD Manoj Kohli on ease of doing business (page 76), a call for value addition in agriculture by Cafe Coffee Day's V.G. Siddhartha (page 98), how to fix inequality by Rama Bijapurkar and Rajesh Shukla of People Research on India's Consumer Economy (page 164), an exposition by IESE Business School's Pankaj Ghemawat and Steven A. Altman from Stern School of Business (page 132) on India's low levels of globalisation, a case for administrative reforms (page 124) by Prajapati Trivedi, former Chief Performance Officer of the Government of India, and Google India MD Rajan Anandan on the leg-up the Internet will offer India 18 months ahead (page 144). Enjoy the ride. ♦

JOSEY PULIYENTHURUTHEL

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Date	NAV Per Unit (₹)	Scheme Returns (%)	Benchmark Returns # (%)	Additional Benchmark Returns # # (%)	Current Value of Standard Investment of ₹10,000 in the		
				Returns (%) # #	Scheme (₹)	Benchmark # (₹)	Additional Benchmark # # (₹)
\$ Since inception till Sep 30, 2014	9.9500	17.34	13.66	13.90	42,369	31,762	32,391
Sep 30, 2013 to Sep 30, 2014	20.6457	104.19	40.05	37.41	N.A.		
Sep 28, 2012 to Sep 30, 2013	23.2482	-11.19	0.39	3.29			
Sep 30, 2011 to Sep 28, 2012	19.3364	20.23	14.13	14.03			

Past performance may or may not be sustained in future and the same may not necessarily provide the basis for comparison with other investment.
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Performance of Reliance Vision Fund - Growth Option as on 30/09/2014

Date	NAV Per Unit (₹)	Scheme Returns (%)	Benchmark Returns # (%)	Additional Benchmark Returns # # (%)	Current Value of Standard Investment of ₹10,000 in the		
				Returns (%) # #	Scheme (₹)	Benchmark # (₹)	Additional Benchmark # # (₹)
\$ Since inception till Sep 30, 2014	10.0000	21.31	11.89	11.14	3,92,294	64,386	74,348
Sep 30, 2013 to Sep 30, 2014	227.1044	72.74	40.05	37.41	N.A.		
Sep 28, 2012 to Sep 30, 2013	266.1429	-14.87	0.39	3.29			
Sep 30, 2011 to Sep 28, 2012	237.6484	11.99	14.13	14.03			

\$ Since Inception Date - 08/12/1995

Benchmark - S&P CNX Nifty INDEX | ## Additional Benchmark - S&P BSE SENSEX INDEX

NAV as at June 30, 2011 (₹) 13.1065

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Date	NAV Per Unit (₹)	Scheme Returns (%)	Benchmark Returns # (%)	Additional Benchmark Returns # # (%)	Current Value of Standard Investment of ₹10,000 in the		
				Returns (%) # #	Scheme (₹)	Benchmark # (₹)	Additional Benchmark # # (₹)
\$ Since inception till June 30, 2011	9.7825	7.86	6.60	5.86	13,425	12,825	12,482

\$ Since Inception Date - 09/09/2007

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*Investors should consult their financial advisors if in doubt about whether the product is suitable for them.

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BT ANNIVERSARY

2015



By
Vinod Rai

ABOUT: Vinod Rai is arguably among India's most impactful public servants in recent years. A career bureaucrat from IAS' 1972 batch, Rai, as the Comptroller & Auditor General, shone the spotlight on revenues foregone by the exchequer.

The most controversial of instances among those flagged by the chief auditor were the 2G and coal scams

ILLUSTRATION BY RAJ VERMA

INSTITUTIONS

India's institutions may seem weak after scams of recent years but the cleansing will usher in predictability in the system

INSTITUTIONS, WORK IN PROGRESS

M

any in India argue that over the years Indian institutions have failed. But I continue to live with a contrarian view.

Institutions are not failing in India but are waking up. In every vibrant democracy, like the one we have, there are institutions that have to perform different roles. Every strong nation requires empowered institutions for predictability of things.



**WHATEVER THE BUREAUCRACY DOES,
WHATEVER THE OPPOSITION DOES, IT IS THE
POLITICAL EXECUTIVE — THE GOVERNMENT —
WHICH CALLS THE SHOTS. The onus is on them
to frame long-term perspective, plan formations,
investment opportunities and priorities**

Let's take a closer look at how Indian institutions have fared. There are political institutions, there are economic institutions. In the present system, the legislature is supreme. Once Parliament is elected, the majority party forms the government. Whatever the bureaucracy does, whatever the opposition does, it is the political executive — the government — which calls the shots. The onus is on them to frame long-term perspective, plan formations, investment opportunities and priorities.

And, there are accountability institutions, which in my view are the most important. Look at how the Election Commission (EC) works in India — it's a fine example. In our political space, the EC's writ runs, the processes of elections are fair, and regardless of whether there is democracy in the structure of political parties. But, more on that later.

I have a strong case to back my belief that institutions are waking up and now this democracy is producing. For instance, the role of urban local bodies (ULBs) and panchayati raj institutions (PRIs) has started playing up over the last few years. Today they are exerting themselves and are becoming more active. A few years ago, the government decided to launch NREGA and the National Rural Health Mission — big-ticket programmes in terms of their budgets of ₹40,000 crore to ₹50,000 crore — through PRIs or ULBs and not through the regular development chan-

nels of the state government.

When the programmes were launched, the ground-level capacity had not matured as such. Suddenly, we had a scenario that a panchayat, which was handling a budget of ₹35 lakh to ₹50 lakh per annum, suddenly was given ₹5 crore to ₹6 crore. The panchayat was just not equipped to account for it. But today, these institutions have started to transform. There is wisdom, especially the way these institutions are bringing in more public participation in the planning process. They are matching their resources, formulating their priorities, based on local needs. Today, there are many examples of PRIs formulating policies based on demands, rather than the earlier supply-based approach.

That said, the other institution, the bureaucracy — the civil services, the police service — has gone into regress. It was a byproduct of the fact that the political executive started exerting itself, but I believe that India has come full circle. The defining moment for the executive was 2012 — the flash point was the protests after the rape of an unfortunate girl in Delhi. That was a time when youngsters wanted to work for the nation but didn't have any direction. Anna Hazare had launched his campaign much earlier, but when these kids came out in the streets at India Gate and Jantar Mantar, not because someone asked them to come out but it was the power of social media, they came not to protest but to just express their concern. Sitting there quietly, lighting candles, none of them were protesting or raising slogans.

But, the executive didn't know how to deal with them and water-cannoned them — which I believe is the biggest mistake the administration made. A small-time district magistrate would have handled the situation very well. The top bureaucracy got involved and made a mess out of it. What were the youngsters saying? The institutions are not working. They were expressing their concerns. They wanted to do something for the society, but were asking "how". All this churning has led to a very healthy paradigm.

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Institutions are waking up and now this democracy is producing. For instance, the role of urban local bodies and panchayati raj institutions has started playing up over the last few years. Today they are exerting themselves and are becoming more active

The accountability institutions came in and saw empowerment. Take the Central Vigilance Commission (CVC), Central Information Commission (CIC), Comptroller & Auditor General (CAG) – each one of these institutions are feeling their strength. People have asked me this question several times, when I was in office, if I quit what will happen to the system. My answer always was – and it is proven now – that the institution has seen empowerment. Now the ground swell in the institution is such that no CAG, who even if he wants to play poodle to the government, will be able to do it. He will always fear that if the information leaks, this will impact his credibility and the institution's credibility. If you remember it was the CIC which passed the order that the political parties will have to declare their sources of income. The commissioner was a former bureaucrat and he took on the political parties. This is empowerment of the institution.

The emerging paradigm out of this is going to be very good. From a single-person body, the EC now is a plural member set up. If any politician fears anything, it is not so much the court but it is the EC. In a single-line order, the EC can disqualify any politician and that would be the end of the story. Today, the elections are free and fair. Just imagine that from the picture a few years back when there were stories from various parts of the country of rigging and booth capturing. It is the same bureaucracy that every politician and Indian runs down, which delivers these elections – without any such incidents today.

Similarly, if there are faults, the CAG points out the mistakes – be it in Haryana, Gujarat or Maharashtra – without any fear. Similarly, the CVC ordered criminal investigations after receiving the complaints from various politicians about appropriation in coal mine allocations. Don't forget that it is not even a constitu-

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tional body but a statutory one. But it could take on the administration. All this contributed to the ethical, sustainable governance in our country. The politician now knows that if the decisions taken don't fall in the stated line of procedures, he would be held accountable.

The bureaucrat, too, today has this realisation that he should be careful. He cannot take a decision which cannot withstand scrutiny. He is forced to think on the lines that some day questions would be asked on his decisions. You may call this a cleansing process or say the transparency was induced in the system.

Let's move on to the judiciary. The organs of the state – legislature, executive and judiciary – are in what I'd call a zero-sum game. If any one among

2G licences came, he went to the prime minister and advised him to cancel them. This means, the decision which was to be taken by the government was not taken correctly and, hence, the judiciary had to step in. We advised the government that we are giving you a draft report on coal mines, it is evident that the allotments have gone awry, why don't you put it in abeyance, and examine them on a case-by-case basis. Reissue them if you find them alright. The decision was not taken and they waited for the judicial decision – which in the end was more painful.

We still have a problem with our regulators. The major problem in these institutions lies in the laws itself. Be it the Telecom Regulatory Authority of India,

The bureaucrat cannot take a decision which cannot withstand scrutiny. He is forced to think on the lines that some day questions would be asked on his decisions. You may call this a cleansing process or say the transparency was induced in the system

them cedes space, the other is bound to move in. The government and executive was ceding space during the United Progressive Alliance (UPA) regime. Let's face it: if the quality of decision making is not good, you are bound to be questioned. If the executive isn't able to give satisfactory answers, the judiciary has to move in. Our judiciary, by and large, has held its ground. You may call it judicial activism but someone or the other in the institutions was not taking decisions correctly.

A classic example of this is at Rajdeep Sardesai's recent book launch. Karan Thapar was interviewing P. Chidambaram [former finance minister] and Arun Jaitley [current finance minister]. There, Chidambaram committed that when the CAG report about

Insurance Regulatory and Development Authority of India, Pension Fund Regulatory and Development Authority, or Reserve Bank of India, the law clearly states: the government reserves the right to issue directions.

The electricity regulators are just advisory bodies. It is not binding on the state government to revise tariffs. The government must look for ways to bring in healthy practice to bring in more respect for these institutions. The present government, which has a majority in the Lok Sabha, can easily manage this. The regulators must comprise domain experts, not be a haven for retired bureaucrats. These institutions should be allowed to play their roles and by the rules of the book. ♦

(As told to Anilesh Mahajan)

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BT ANNIVERSARY **2015**

SERVICES ECONOMY

The rapid growth of services in India is not only sustainable but is also poised to drive manufacturing in the country

By
K.V. Kamath

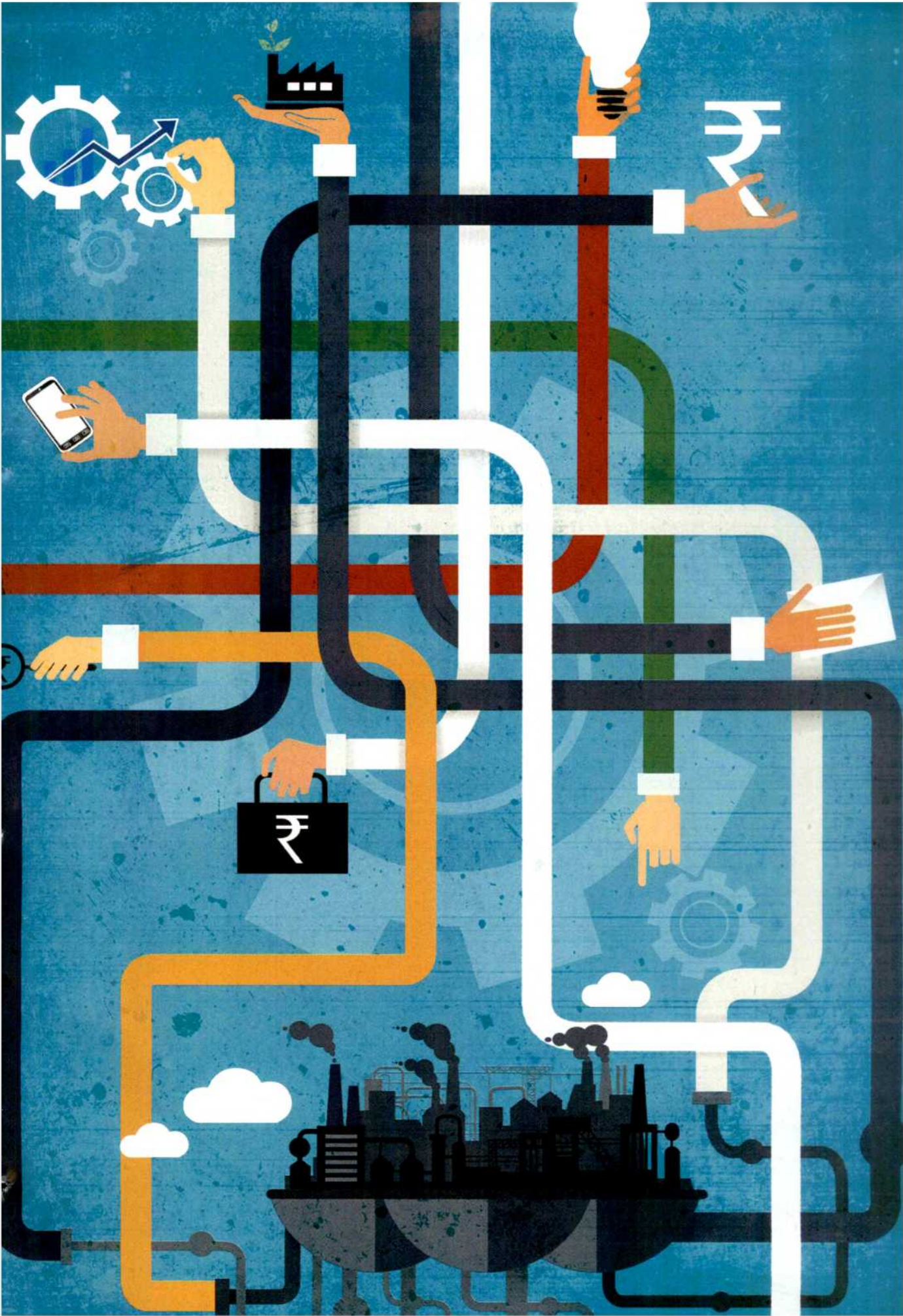
ABOUT: One of Corporate India's top citizens, banker K.V. Kamath has a bird's eye view of the national economy. He strongly believes in the power of brands and the use of technology for deep impact in a business. Sitting on boards such as those of ICICI Bank and Infosys, Kamath has argued in the past that the high contribution of services to India's GDP should not be considered a disadvantage

DON'T OVERLOOK OUR SERVICES PROWESS

In recent years, concerns have been expressed about the Indian economy's reliance on the services sector. It is felt that there is a need to build a larger manufacturing sector. We have the resources to create a global manufacturing base in our country which will have multiple advantages in the form of augmenting the supply side, employment generation, driving growth and improving the trade balance. While manufacturing will add another dimension to our growth, the services sector will continue to be strong, given its robust contribution in the last 15 years and enormous potential to drive growth by meeting the aspirations of a growing consuming class.

The liberalisation and reforms process of the 1990s triggered unprecedented changes in the economy. A significant structural shift was seen in the economy with the emergence of the

ILLUSTRATION BY AJAY THAKURI



services sector as its contribution to India's GDP rose from 42.55 per cent in 1990/91 to 60 per cent in 2013/14. During this period, the services sector grew at a compound annual growth rate (CAGR) of 8.1 per cent compared to 6.5 per cent overall economic growth. The rapid growth in services was driven by two major factors – the exponential advances in technology and the rise in per capita income, which had a significant effect on the demand for better services in the country. There has been a significant uptick in demand, both in terms of quality and quantity, and the entry of new players in sectors like financial services has ex-



INDIA'S PROGRESS HAS BEEN UNIQUE IN MANY WAYS AS IT DEVELOPED A DISTINCT GROWTH MODEL. The economy transitioned to a knowledge economy driven by the services sector, leapfrogging the intermediate manufacturing driven stage seen in developed economies

panded markets and driven growth.

India's progress has been unique in many ways as it developed a distinct growth model. The economy transitioned to a knowledge economy driven by the services sector, leapfrogging the intermediate manufacturing driven stage seen in developed economies. In the 1990s, a sequence of drivers emerged which pushed the services engine at a remarkable speed. The acceleration started in the technology industry and as Moore's law came into effect, technology grew at exponential speed and growth in services kept pace. This was followed by an acceleration in financial services, telecom, retail and the rise of the retail customer. The change continued with transportation, travel, tourism, media, health services and the list goes on. Growth in these sectors was accelerated

further by the rapid increase in the per capita income witnessed in this period.

The services story began with knowledge intensive companies leveraging the rapid technological changes post the information technology revolution. These developments happened under the radar, with very few people realising that a big paradigm shift was underway. Technology facilitated new ways of doing business via increasing computing power, data storage capacity and data transmission capacity. In fact, each new wave of change in technology is faster than the previous ones. This has resulted in technology becoming ubiquitous and almost universally accessible. Telecom connectivity has grown at a dramatic pace and today we have the second-largest mobile subscriber base in the world with over two-thirds of the Indian population having access. Farmers who were earlier dependent on middlemen, now have better information on pricing. It has democratised access to information and increased access to markets.

The banking industry has been at the forefront of leveraging these trends and ICICI Bank was one of the early adopters of technology and innovation in banking leading to expansion of services and credit to the retail consumer. Technology adoption in financial services continues with the Jan Dhan Yojana announced by the Prime Minister. The programme is being rolled out at a record speed and will give access to the banking system to a large number of consumers and small businesses. The account itself will become a channel for delivery of government benefits and reach a massive scale of 100 million households or about 400 million persons opening up tremendous opportunities for further rollout of services. The next wave will be to make credit available to individual entrepreneurs and the tiniest of enterprises. Innovative models will need to be adopted to reach over 45 million small and tiny businesses which will again need an organised push from the services sector.

The organised retail sector has made the Indian consumer more brand conscious by offering multiple choices across products and has also brought in efficiency in the supply chain. At the same time, it



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has also been able to pass on the benefits of efficiency in the form of savings to the end customer. We are now seeing the rapid growth of e-commerce and online retail stores. In a very short time e-commerce companies have built scale, leveraging the trends of a growing consumer market, technological advancements and connectivity. More than half of the sales are to people in smaller cities and towns where either brands are not available or product variety in local markets is inadequate. E-commerce has spawned investments and growth in extensive delivery networks. In recent years, there has also been a transition in rural consumption patterns with reducing dependence on agriculture as a means of livelihood and rising wealth creation among the middle class in rural areas, in turn increasing the demand for products and services.

\$550 in 2003, and it doubled again in just five years to cross \$1,000 and then cross \$1,500. This has tremendous implications for savings growth, consumption demand and the ability to finance investment in the country. As affordability increased, the retail consumer became a large driver for the demand in services. Travel sector saw a significant expansion as air and road travel grew, in turn leading to a growth in demand for tourism and hotels. Similarly other sectors like media, entertainment, health care and education all benefited with increased aspirations of the retail consumer. As the GDP per capita pushes towards the \$2,000 mark it will further push the services already in place and open newer areas to move to a higher trajectory.

In summary, the growth in services over the last two decades has driven in-

INDIA'S PER CAPITA GDP DOUBLED FROM AROUND \$260 IN 1980 TO \$550 IN 2003, and it doubled again in just five years to cross \$1,000 and then cross \$1,500. This has tremendous implications for savings growth, consumption demand and the ability to finance investment

The automobile industry is also a key contributor as the rise in sales of personal vehicles has created a multiplier effect on support services required after sales and also the car accessories market. Transportation and logistics services grew rapidly as demand for goods grew across the country. In much the same way, the impact of service industries is not limited to just the direct output or direct employment, but also the creation of ancillary services and employment generation. According to a study by NASSCOM and CRISIL, in 2007, for every job created in the IT and IT enabled services sector, four jobs are created elsewhere.

The services story is still unfolding. A GDP per capita of \$1,000 is the first important threshold beyond which an economy sees increased affordability and aspirations for a better lifestyle. India's per capita GDP doubled from around \$260 in 1980 to

come growth and expanded domestic demand. This now presents a strong platform of a large domestic market to drive manufacturing sector growth. At the same time, the services sector itself will continue to see robust growth drivers which will further propel its expansion. Technology continues to drive innovation and creation of new smart business models which are based on leveraging digitisation, mobility and social media. Given these factors, coupled with our demographic dividend and the expected jump to a higher trajectory for both growth and per capita GDP, we have the right conditions for a virtuous cycle to sustain for many years. I believe that manufacturing and services both, ticking together, will drive growth, provide employment to youth in our country and ensure that we reach the potential that our country is capable of achieving. ♦

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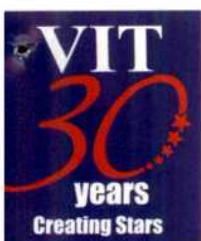
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BT ANNIVERSARY **2015**



By
Amitabh Kant

ABOUT: A 1980-batch IAS officer, Amitabh Kant is one of the go-to senior bureaucrats in the Modi administration. In his past assignments, the latest as CEO and Managing Director of Delhi-Mumbai Industrial Corridor Development Corporation, Kant has helped infrastructure projects and high-impact marketing initiatives cutting across governments, private sector, NGOs and civil society

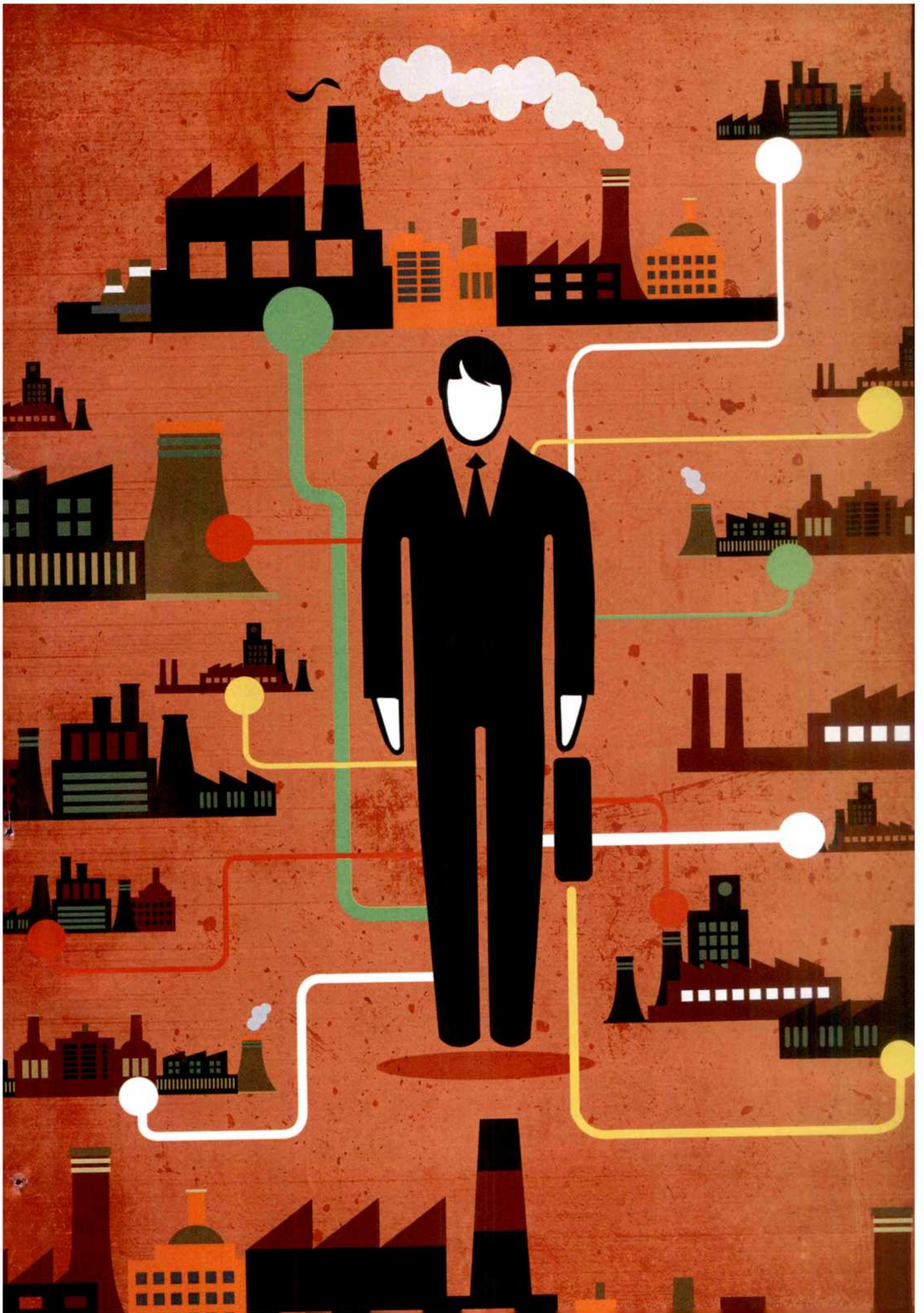
ILLUSTRATION BY AJAY THAKURI

MANUFACTURING

For large-scale manufacturing to take off, certain legacies of the past need to be corrected

GETTING INDIAN FACTORIES TO HUM

The challenge for India is to grow at nine to 10 per cent a year over three decades or more to be able to create jobs for its young population. This challenge can be met only if manufacturing expands at very high rates because only manufacturing can create jobs. Until now we have largely grown on the back of the services sector, which accounts for some 60 per cent of our gross domestic product (GDP). The share of manufacturing has stagnated around 15 per cent, and this, in the long run, has adverse repercussions for India. So, India needs to focus on manufacturing.





In the past six months, the government has taken a series of measures to get this right. It has focused, first and foremost, on the ease of doing business – scrapping a number of processes, procedures, paperwork, old rules, laws and acts which were impacting manufacturing. So, the government is dismantling a lot of controls. It has taken several measures to do away with human intervention. It is deregulating, delicensing, and integrating different departments together. All these are big measures and will pay India in the long run.

The government has opened up foreign direct investment (FDI) in a number of sectors. It has, for instance, in the railways sector allowed 100 per cent FDI for

This government has focused on very large industrial clusters, industrial corridors and smart cities. It has to create large cities where 35 to 40 per cent of GDP comes from manufacturing.

This government appears to be fairly determined to drive manufacturing, and there's a lot of energy and vibrancy. But there's also an unfinished agenda of the government. For large-scale manufacturing to take off, there are several other things that need to be done. There are certain legacies of the past which need to be corrected. For example, we have one of the worst labour regimes. We need to set that right. An EXIM Bank study says that only Pakistan has worse labour laws than us. In the past six months, certain labour reforms have been carried out. The expectations are so high that we need big-ticket reforms.

The last government had messed up badly on land laws. When I talk about land acquisition laws, I am not talking about not giving a higher price to the farmer but the present act is anti-farmer because it is full of procedures and processes which never allow farmer to monetize the land value. It will work against his interest. Everything is at a standstill. The government needs to quickly reverse this whole process.

Also, the government needs to roll out the goods and services tax (GST) and resolve problems plaguing the energy sector. In a number of cases of manufacturing, there's an inverted duty structure which has risen either as a result of tax policies or free trade agreements signed earlier. It is important to set this right. Some of this work was done in the last budget but this is an ongoing exercise.

The last key point that the government needs to do is to bring in greater consistency and predictability of tax policies. This government, to my mind, has not done anything wrong in the past six months but there are severe legacy issues. Bad tax policies, bad labour laws, bad land acquisition policies need to be set right to take India to a higher growth trajectory.

Under the 'Make in India' scheme, the government has identified 25 sectors where India can be a global champion.

THE LAST GOVERNMENT HAD MESSED UP BADLY ON LAND LAWS. I am not talking about not giving a higher price to the farmer but the present act is anti-farmer. The government needs to quickly reverse this whole process

operations, maintenance and construction. It has opened up the construction sector in a big way and has deregulated almost 60 per cent of the items under the defence manufacturing category. It has allowed 49 per cent investment in defence manufacturing, and in modernisation and state-of-the-art cases, FDI can go up to 100 per cent. So the FDI regime is liberalised now. To my mind, defence manufacturing is an early flower that can be plucked if we focus strongly on it. If we are able to play our requirement of defence effectively, then we can get a lot of good manufacturing in India.

India is thinking of size and scale, which is very necessary. Manufacturing can happen if you are able to bring in an ecosystem – create backward and forward linkages, a supply mechanism, better labour laws – in some centres of excellence.

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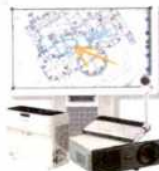
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These are sectors – automobile, auto components, electronics, pharmaceuticals, food processing, leather – where a lot of work has been done and a lot of work is going on right now. I think India has a competitive advantage in these sectors. Different ministries are working on this.

The challenge is that while we are driving these sectors, the labour intensity of manufacturing is falling. Eventually, you have to have growth with employment. Therefore, India will have to push for advanced manufacturing in a vast range of areas. Essentially, the world is moving to an area where manufacturing is increasingly getting converged with software. All leading manufacturers of the world are moving towards hard manufacturing with information technology

Indian manufacturing, if it has to grow, has to take off by being part of the global supply chain. At least 15 states in the country should have manufacturing as the key driver of growth and these states must drive India's manufacturing. If the ambition is to grow at nine to 10 per cent, and agriculture is growing at three per cent, there's a lot of disguised unemployment. The only way for India to move forward is to take disguised employment out of agriculture and create employment in manufacturing sectors.

I think that, by 2025, we should be able to create 100 million new jobs and take the share of manufacturing in GDP to 25 per cent. No country in the world has grown on the back of agriculture. Look at Japan, South Korea, Singapore, Taiwan

15% IS THE SHARE OF MANUFACTURING IN INDIA'S GDP, COMPARED WITH 60% FOR THE SERVICES SECTOR. By 2025, we should be able to create 100 million new jobs and take the share of manufacturing in GDP to 25%

to bring in efficiency. India has a unique advantage because it produces the best programmers in the world. Our programmers have gone to work with top companies globally. Therefore, if the next wave of advanced manufacturing will require convergence of manufacturing and information technology, I think India has a unique potential. Under the 'Make in India' scheme, 65 proposals have been cleared in defence manufacturing.

While advanced manufacturing in certain areas is necessary, there's also a need to push for labour-intensive manufacturing because you have to create jobs. Therefore, leather manufacturing, food processing, gems and jewellery, and textiles are key areas to create jobs. We need to look at large-scale job creation in partnership with the private sector.

and China. All these countries have grown on the back of manufacturing. Since China is increasingly becoming expensive due to wage rates rising and is facing labour unrest, India has an opportunity to become the factory of the world. There's no reason why India should not be a manufacturing hub. We have ports, young population, a long coastline and good private sector.

I have been working on improving the ease of doing business for the past six months. It is long, sustained hard work. It is a mindset issue. You cannot expect 'Make in India' to bring a revolution in just two months. We must understand the huge challenges that our country faces. We have to get the ecosystem right – do away with clearances and have a transparent and consistent policies. ♦

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BT ANNIVERSARY **2015**



By
D. Shivakumar

ABOUT:
D. Shivakumar is the
Chairman and CEO
of PepsiCo India.

Tasked with
overseeing the
investment of
₹33,000 crore by the
company in India by
2020, Shiv, as he is
better known, keeps
a tab on the policy
landscape to
carefully choose
which markets –
geographical and
product-wise – to
dive into. Prior to
his current role, he
led Nokia's business
here when it was
India's largest MNC
operation

ILLUSTRATION BY RAJ VERMA

INNOVATION

The focus on manufacturing is necessary but not sufficient. The government must also strive to transform the country into a hub for frugal innovation

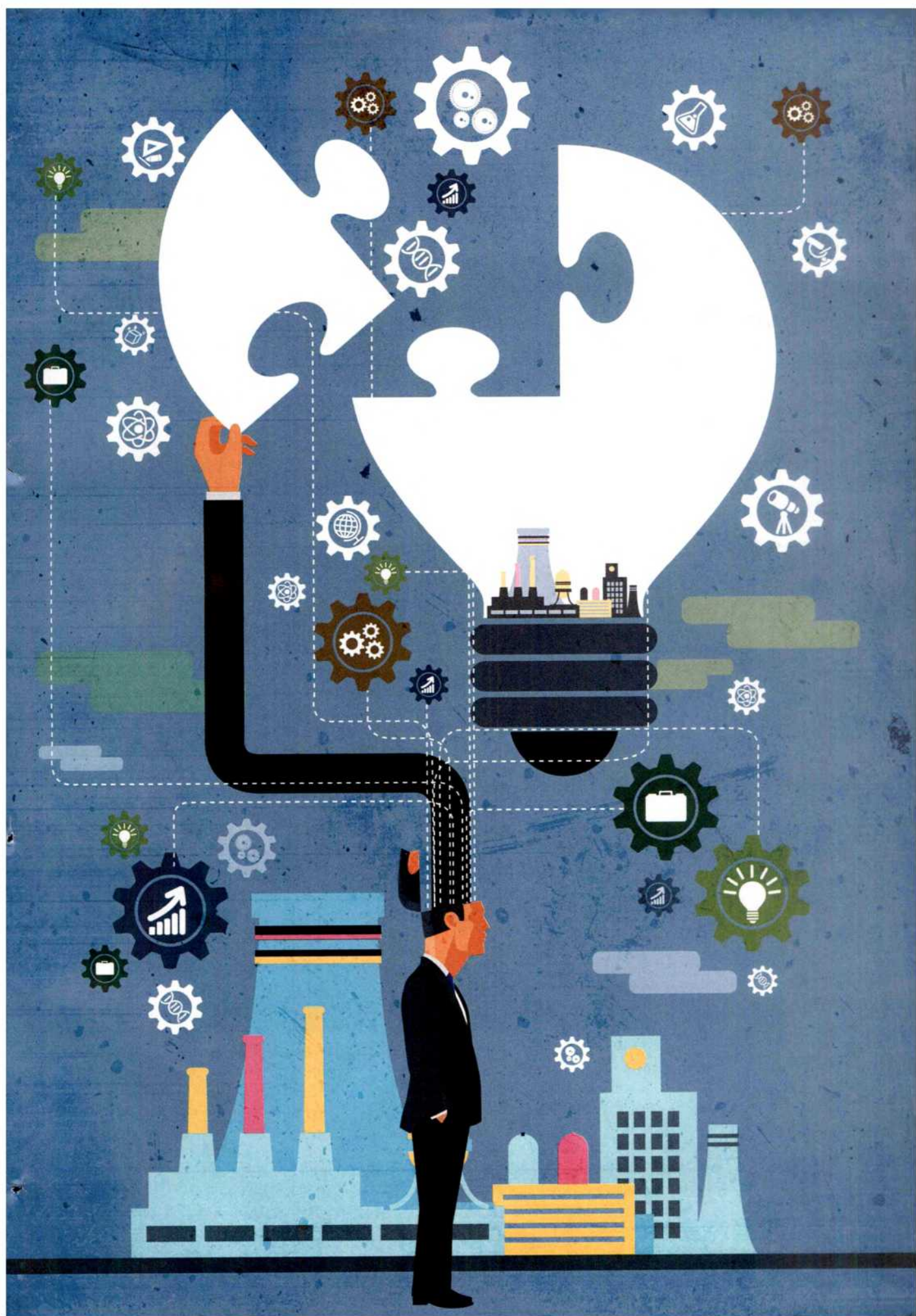
DRIVING EXCELLENCE IN INNOVATION

M

ake in India' has caught the imagination of business houses, media, and investors.

It is difficult to say with certainty that

this has turned into tangible Foreign Direct Investment (FDI) inflows or high intent to set up manufacturing projects in India. 'Make in India' is a powerful concept. India will be a large consumer market, one of the largest business-to-business markets and one of the largest businesses-to-government markets in the world.





Very few countries have scale in all three areas. India also has a large base of entrepreneurs. All this makes India a perfect role model for frugal innovation in emerging markets.

India is a \$1.9 trillion economy and at current growth rates we will be around \$6 trillion in 2034. We have the potential to be a \$10 trillion economy in the next 20 years if we encourage manufacturing and innovation in select sectors. We will need to create a million jobs every month in the course of this journey. We need to do six things if we want India to be an innovation leader for emerging markets and a \$10 trillion dollar economy by 2034.

Branding will be integral to this journey. We cannot be a low-cost producer of

think scale on this journey.

Encouraging sub-scale activities will not generate value. We need to develop ecosystems where the big and small work together to build scale. This principle is relevant in FMCG, automobiles, electronics, telecom and many other categories. The German model of big and small companies working together in their competitive automobile ecosystem is a good model. India has close to 50 million MSMEs (Micro, Small and Medium scale enterprises). Ninety-five per cent of MSMEs employ less than 10 people, and the remaining five per cent employ between 10 and 100 employees. These MSMEs are rich in ideas and initiative but poor at accessing capital and human talent. The government has set aside ₹10,000 crore in the last budget for MSMEs. This is a good start. MSMEs in the technology area have high management capability but in other areas, the big companies will need to help the small ones build capability.

If a nation wants to be innovative for the masses, mobile technology is a must. India has the second-highest base of digital products in the world. A smartphone coupled with UID (unique identification), low data charges and easy access to the Internet will be a boon to innovation in business models. A mobile business model will be a default business model in India and the country will be the gateway for this revolution. Africa and many emerging markets will leverage this after India. Technology can play a positive disruptive role in health and education services. India's investment in health and education is less than four per cent of GDP and an old brick-and-mortar approach to these two sectors will need billions of dollars. Infusing technology here is the innovation and this innovation again has legs to sprint not just to emerging markets but developed ones as well since every country grapples with the same problems.

India can be the hub for breakthrough value innovation in durables. The small car will be the start. When India and Tatas master the small car, they will set off a revolution in many other durables. This concept of frugal but efficient durables will be a significant theme of the future. This will

INDIA GOT \$28 BILLION FDI OUT OF A GLOBAL POOL OF \$1.45 TRILLION LAST YEAR. India's rightful share should be much more than that. We need to start a virtuous cycle of innovation, investment, job creation and consumer surplus

goods and services forever. We will need to move up the value chain and use technology, consumer insights and brands to capture value via innovation. This will need a different mindset. This will mean a move to design thinking, to think sensory appeal, to think the concept of consumption and enhancing the value in packaging. India is weak on a number of these dimensions because we have historically placed price, distribution, efficiency and market capitalisation ahead of creativity, business models and brand value.

We will need to rethink the ecosystem. This will require an active shift in thinking the complementariness of big and small as opposed to an opportunity limiting big versus small paradigm. India is a big market for most goods and services and will be a bigger market this decade. We need to

need India to redevelop its industrial and technical training Institutes and will mean a significant overhauling of the current analog curriculum to a new digital one. This digital capability will flow into services too and India will be uniquely placed in the world to offer a good mix of digital and physical services in the requisite sectors. India also has the ingredients to be a hub for small passenger jets.

India has a strong base of institutions for higher education and scientific studies. We could encourage cross-fertilisation of ideas and open these higher-level institutions to business. This will be a big plus for India since only a few countries like the US and China can leverage similar advantages. This unique connect and develop model can be a source of leverage and a gateway to emerging markets looking for a support system.

Innovation needs diversity and India has rich diversity. We will have three genera-



tions in the workplace this decade and that will give us a significant balance and advantage. Our ability to tap into the base of talented women will be a model for emerging markets. Our ability to tap into the wide spectrum of socioeconomic and cultural groups will be another advantage for Indian innovation.

India will not have all the capital or savings needed for this investment. According to the World Investment Report 2014, India got just \$28 billion FDI out of a global pool of \$1.45 trillion last year. India's rightful share should be much more than that every year. We need to kick start a virtuous cycle of innovation, investment, job creation and consumer surplus. India is well placed to harness most of the enablers. If we do this right we could translate 'Make In India' to 'Innovated in India' by the turn of this decade. ♦

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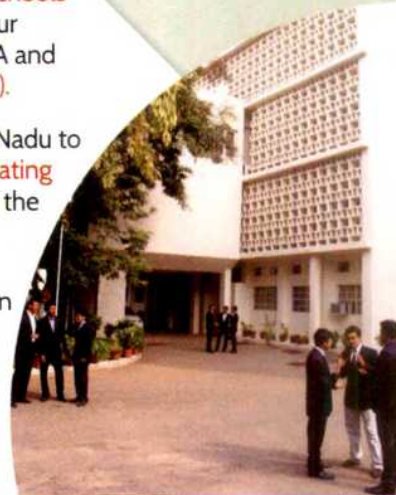
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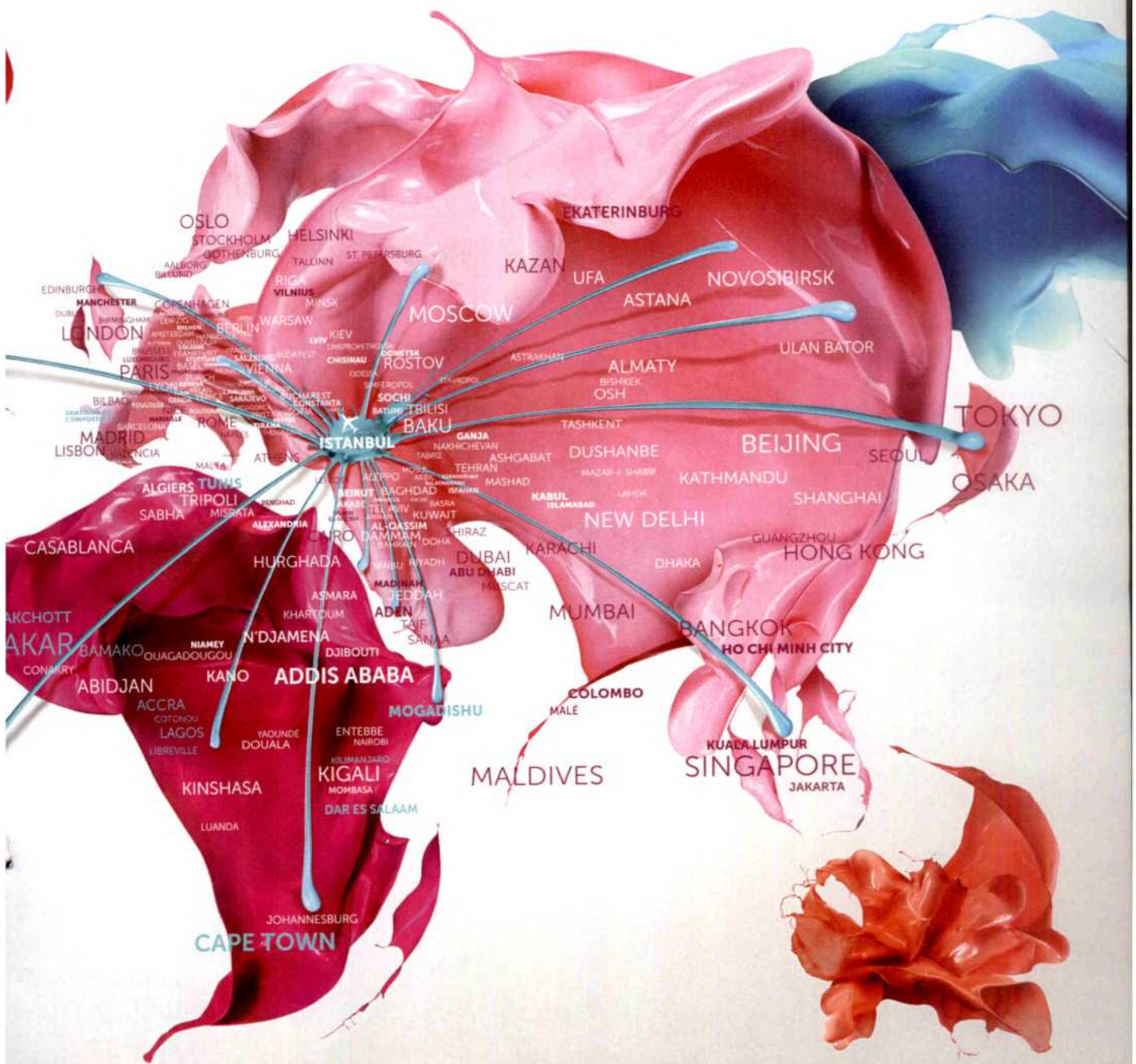


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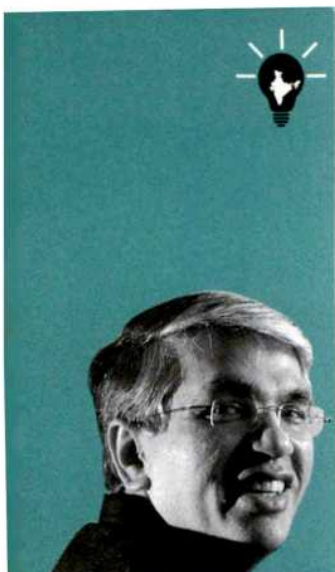


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BT ANNIVERSARY **2015**



By
**Manish
Sabharwal**

ABOUT: Someone who likes to discuss more about labour reforms in India than talk of the temping company he co-founded, Manish Sabharwal has a keen mind working at the intersect of demography, employability, and labour markets. A Wharton graduate, Sabharwal is the Co-founder and Chairman of Teamlease Services. In his earlier avatar, he started up, ran and sold India Life, a BPO firm in the HR space

ILLUSTRATION BY RAJ VERMA

JOB CREATION

Massive job creation should be at the heart of policy-making. But first reforms in a few areas leading to a sea change in the dynamics of land and labour should happen

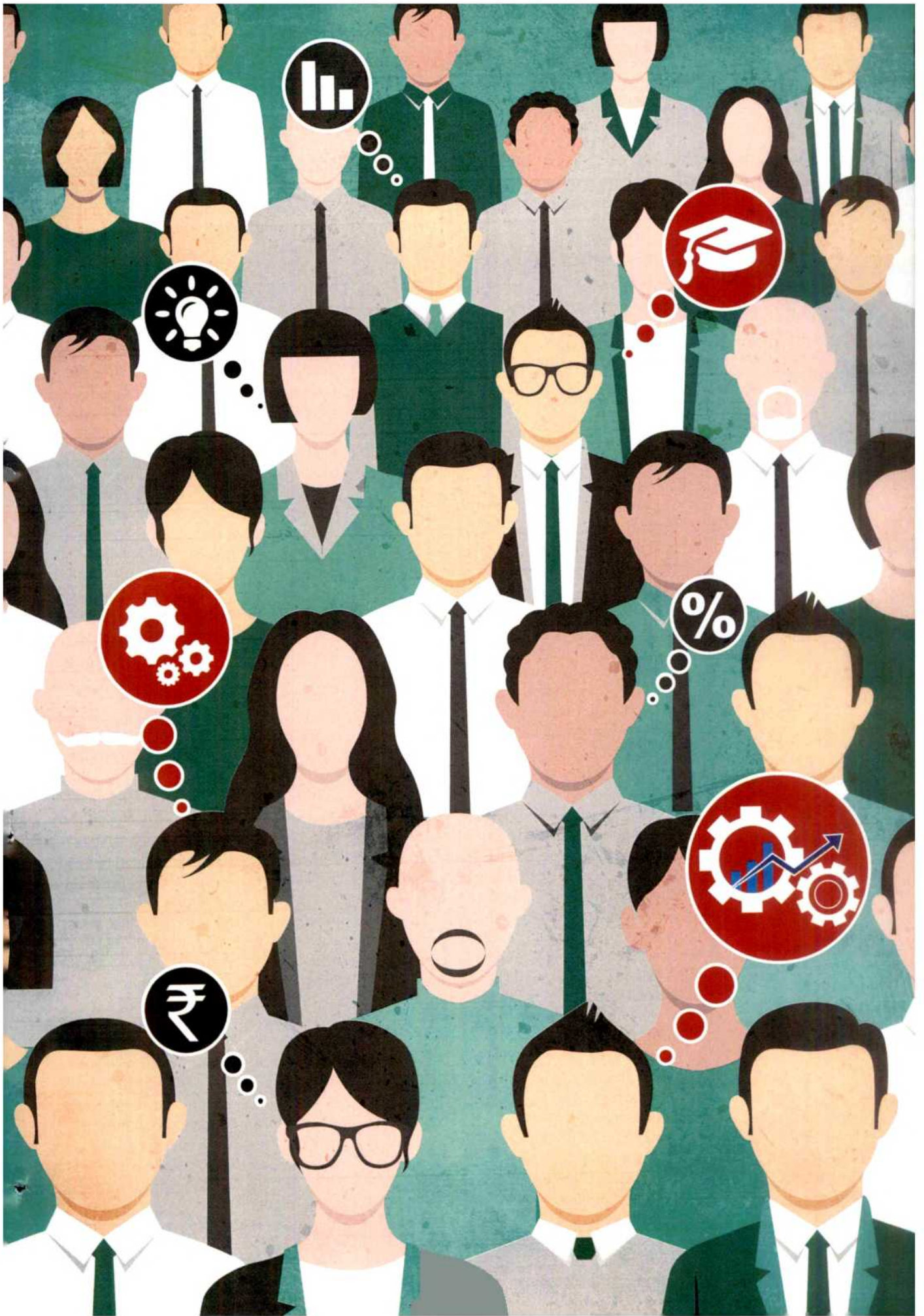
HARNESS THE POWER OF YOUTH

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story about Albert Einstein has him giving an exam to his students. Fifteen minutes into the exam one of the students stands up and says, "We don't have a problem professor but

the questions in this year's exam are exactly the same as that of last year." He smiles and says, "Don't worry, the answers are different this year."

Unfortunately, the story does not apply to India's job creation emergency – here the questions and answers have stayed the same for the last 20 years. We have known what to do for a



WE NEED TO REALISE THAT WHILE INDIA HAS A CAPITAL MARKET, THERE IS NO SUCH THING AS INDIA'S LABOUR OR LAND MARKET BECAUSE the dynamics of land and labour are different in the economic wastelands like Uttar Pradesh and in job engines like Gujarat

long time; the Apprenticeship Act of 1961 was amended last month, 39 years after Indira Gandhi made this reform the 20th point in her 20-point programme in 1975.

We have not made progress because of the transmission losses between the poetry rooted knowing "what" and the plumbing focused knowing "how". India has a unique opportunity not only because of our young workforce – 65 per cent of our population is less than 35 years old – but also because China has crossed what Nobel laureate Arthur Lewis has identified as the turning point when a country runs out of farm labour and wages rise rapidly.

This weakness of our primary competitor combines with the huge problems of developed countries. The sale of adult diapers has crossed baby diapers in Japan and Europe is facing an unsustainable situation: it has seven per cent of the world's population, 25 per cent of the world's Gross Domestic Product (GDP), and 50 per cent of the world's social spending. So the next 20 years are going to see India make a tryst with her destiny and this time she would like to keep.

But for that, job creation should be at the heart of policy-making as jobs change lives in ways that no subsidy ever can. India needs massive formal, non-farm, private sector jobs. This objective needs to acknowledge that politics is a contact sport and policy is a child of politics. It needs to realise that while

India has a capital market, there is no such thing as India's labour or land market because the dynamics of land and labour are different in the economic wastelands like Uttar Pradesh and in job engines like Gujarat, Maharashtra or Tamil Nadu. So empowering 20 Chief Ministers may be more important than fixing things in Delhi.

This agenda is not only about salvaging our demographic dividend – the 10 lakh new entrants joining the labour force every month for the next 20 years – but also about relocating the 300-million-plus adult workers currently trapped in low productivity. Most of us grew up learning that our huge population was our impediment but we have now gift wrapped our young people as a demographic dividend. But then it is not just about people but productive people, and productivity is about jobs. The five areas of regulatory cholesterol that are holding back a Cambrian explosion in jobs are:

Ease of Doing Business

India is a hostile habitat for entrepreneurship; we entrepreneurs have to generate our own power, provide transport, get our own security and find our own employees. But this policy hostility – outcome of commission and omission by the state – results in the two related birth defects of too few formal enterprises and too many sub-scale enterprises. India's 6.3 crore enterprises translate to only nine lakh companies. Of them, only 45,000 post at least one job on an online job portal on any day. Only 7,500 companies have a paid-up capital of more than ₹10 crore.

This massive inadequacy leads to sub-scale enterprises; 84 per cent of our manufacturing is done by companies with less than 50 employees. An enterprise can either remain a dwarf or grow from a baby. But India has become a nation of corporate dwarfs.

Improving the ease-of-doing business across the board would increase formality, productivity and scale among our enterprises. Instead of Special Economic

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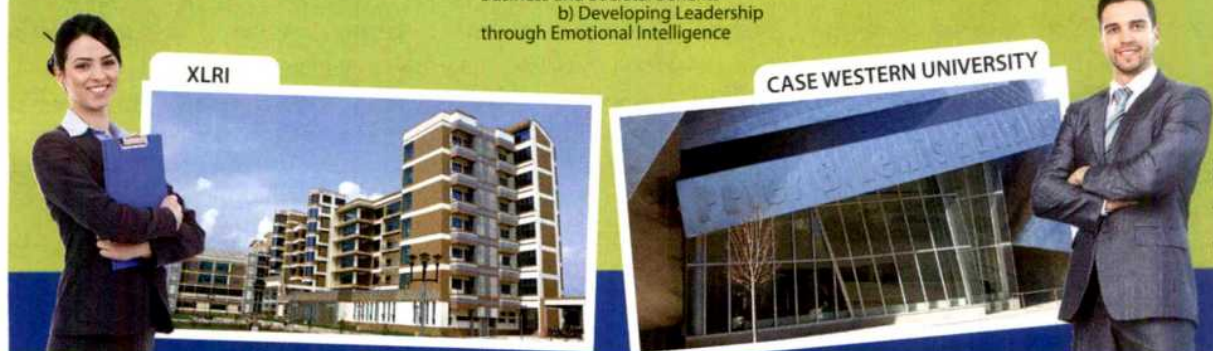
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Zones, we need to fix the whole country by moving from deals to rules-based system, rebooting the Ministry of Micro, Small and Medium Enterprises, getting rid of the labour and tax-inspector raj, implementing Goods and Services Tax (GST), growing the venture capital industry, digitising government interfaces, freeing foreign investment, and getting rid of outdated laws.

Urbanisation

Taking jobs to people does not mean shoving more people into Delhi, Mumbai or Bangalore but creating new cities with a population of more than a million people (Currently India has only 50 while China has 400). Urbanisation is

real mayor in India is the Chief Minister of Delhi. If we provide the space for boldness in city governance, the agenda of low-cost urban rental housing, traffic, law and order, industrial clusters, drinking water, warehousing, toilets, and so on will see innovation. China's genius was competition among local leadership – the more local the unit of competition, the better.

Manufacturing

Only 12 per cent of India's workers are employed in manufacturing – this is the same as post-industrial US. This creates two birth defects for our labour markets: 50 per cent agricultural employment (half of our workforce

6.3 CRORE ENTERPRISES of India translate to only nine lakh companies. Of them, only 45,000 post at least one job on an online job portal on any day. Only 7,500 companies have a paid-up capital of more than ₹10 crore

also not about well-planned economic wastelands like Chandigarh or regulatory arbitrage-created cities like Baddi, an industrial town in Solan, Himachal Pradesh. Urban reform is about governance decentralisation – 29 Chief Ministers are more important than one Prime Minister for urbanisation but the real solution lies in creating 100 real mayors.

In 1924, Jawaharlal Nehru was the mayor of Allahabad; Rajendra Prasad was the mayor of Patna; C.R. Das was the mayor of Calcutta; and Vallabhbhai Patel was the mayor of Ahmedabad. There are wonderful letters of Nehru that talk about street lights and Patel about sanitation because mayoral elections were fought on issues like infrastructure. Unfortunately, the only

produces only 15 per cent of GDP) and 50 per cent self-employment (most are subsistence and involuntary as the poor cannot afford to be unemployed). China became the workshop of the world because of great infrastructure, low wages and high foreign investment (60 per cent of their manufacturing exports come from multi-national companies using the country as a production base). But Chinese wages, in 10 years, have gone up from five per cent of the US wages to 20 per cent, and today Vietnam is the biggest beneficiary. The changes India needs do not involve a reversion to licence raj but making the whole of India a fertile habitat for all kinds and sizes of entrepreneurship.

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WE MUST NOT EQUATE LABOUR LAW REFORM WITH HIRE AND FIRE (CHAPTER VB OF THE INDUSTRIAL DISPUTES ACT, 1947) BUT START WITH THE SALARY CONFISCATION REGIME.

The innovation of allowing states to amend labour laws must be encouraged

on their education and skills. In fact, school, vocational and higher education are much more closely related than what the current policy architecture believes. We can't teach somebody in six months what they should have learnt in 15 years. And we have many degree holders who can't get jobs. We need to replace the Right to Education Act with a Right to Learning Act.

We also need new pathways for the 1.05 crore students who fail in Class 10 or and the 60 lakh students who fail in Class 12 every year. We need new kinds of universities that create academic modularity (mobility between certificates, diplomas, and associate degrees) and have flexible delivery (online, distance classroom, apprenticeships) because the social signaling value of a degree matters despite the bottom 25 per cent engineers getting less salary than the top 25 per cent Industrial Training Institute (ITI) graduates.

We need to deregulate distance education because global Massive Open Online Courses like edX, coursera, udacity and so on cite India as one of their largest markets even as Indian universities are not allowed to compete nationally or innovate. We also need a radical revamp of our higher education regulator that currently confuses university buildings with building universities and a new medical education regulator to replace the one that has ensured a yearly

output of 35,000 doctors, far less compared to 12 lakh engineers.

Labour Laws

Fixing the labour law regime allowed Germany to transform itself from being the sick man of Europe to the highest exporter of manufactured goods in the world. People who say that trade union laws don't matter don't understand the impact of Margaret Thatcher's changes in the UK during the 1980s. In fact, people who say that labour laws don't matter for job creation have never created jobs or tried to find one despite being qualified.

India's labour laws are the corporate equivalent of marriage without divorce: on paper you can't get rid of an employee once you hire them. This need fixing in four areas – a benefits regime that confiscates 45 per cent of low-wage worker salary; a toxic trade union regime because of the politicisation of unions and the criminalisation of politics; regulatory cholesterol that is vague and contradictory, and an employment contract that is asymmetric.

We must not equate labour law reform with hire and fire (Chapter VB of the Industrial Disputes Act, 1947) but start with the salary confiscation regime. The innovation of allowing states to amend labour laws must be encouraged because there is no such thing as India's labour market.

In the next decade, for the first time in history, the world's poorest economies by per capita income will also be the world's largest economies. This is progress but India has a unique chance to raise its per capita income by accelerating job creation.

When the father of the nation Mahatma Gandhi came back to India in 1915, Gopal Krishna Gokhale had asked him to make India proud of herself again. I would argue that restoring our pride is about making every young Indian educated, employed or employable. This should have happened a long time ago. But if not now, then when? And if not this government, then who? ♦

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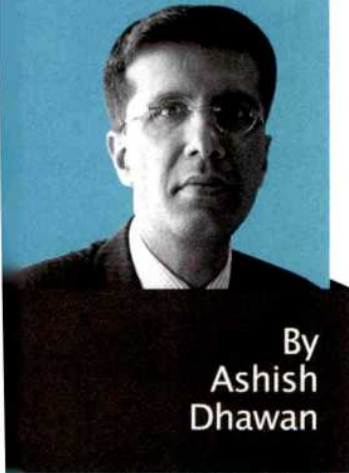
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BT ANNIVERSARY **2015**



By
**Ashish
Dhawan**

ABOUT:
Many in the Indian financial fraternity rank Ashish Dhawan as among India's three most successful private equity fund managers of the last decade or so. An investment professional since 1992, the Yale-Harvard alum shifted gears in 2012, moving to a passion dating back more than two decades: education. At Central Square Foundation, which he founded and runs as CEO, he hopes to help transform standards of education in India

ILLUSTRATION BY AJAY THAKURI

EDUCATION

India needs to focus on its school and college education if it has to accelerate its long-term growth rate

LET'S START AT THE VERY BEGINNING

India has been among the fastest-growing economies in the world in the last decade. However, low-quality education is crippling India's growth as its emerging workforce is unable to cope with the demands of a 21st-century economy.

Countries like Thailand and Mexico that did not invest in education have struggled to maintain their growth, whereas a country like South Korea invested in quality of education to transition into an innovative economy. India too will get trapped in 'middle-income', if we do not act with urgency now to transform the quality of education delivered in our country.



WE NEED TO MOVE FROM MONITORING INPUTS TO REGULATING FOR OUTCOMES. *Schools must be evaluated on outcomes such as college readiness of students, employability of school graduates and student performance on standardised assessments*

Traditionally, our efforts around education have focused on enrolment and not on children's learning. It is hardly surprising then that despite 97 per cent enrolment in Class 1, only 35 per cent reach Class 12 and less than 20 per cent enroll into higher education. Even for those who do complete graduation it doesn't really get any better - nearly half of our graduates are unemployable in any sector.

In the hope of reaping India's demographic dividend, our governments have prioritised skill development. The UPA government established the National Skill Development Corporation in 2008, with the target of skilling 500 million youth by 2022. The new government is developing a 'Skill India' scheme, which is expected to be launched in March 2015 and move beyond the UPA's target. While we emphasise skilling, it is critical to understand that skilling is about 'repair' and will at best give us some short-term results. To unlock the true potential of our human capital, we must transform our school and higher education system to prepare our students for life and the workplace.

An analysis of national and international education reform efforts reveals that the following measures are critical for achieving system-wide education transformation:

1. Accountability to student learning and reforms in governance: Just as the success of a business cannot be

determined by the amount of raw material consumed or the strength of its infrastructure, the success of an education system must not be determined by inputs such as the number of classrooms, the number of books in the library or pupil-teacher ratios.

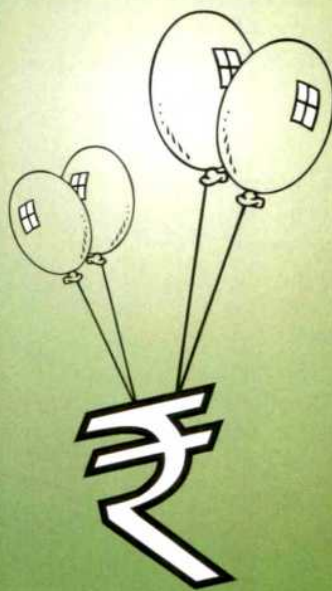
We must hold our education system accountable to high standards of student achievement. For this, we need to move from monitoring inputs to regulating for outcomes. Schools must be evaluated on outcomes such as college readiness of students, employability of school graduates and student performance on standardised assessments. Higher education institutes, similarly, must be evaluated based on measures such as student selectivity, placements, research papers published/cited in premier academic publications, etc.

We also need to ensure robust accreditation mechanisms for all higher education institutes. Third-party agencies such as the National Assessment and Accreditation Council, as suggested by the government, can hold institutes accountable to delivery of quality education. Additionally, the government should incentivise high-performing institutes, while phasing out poor-performing ones. Our accreditation must shift focus from inputs and processes, and adopt an outcome-focused approach for quality assurance. Whilst the rankings generated by media publications may not be rigorous, they do survey students and peers, and pay attention to the placement track record.

2. Investment in human capital development: For our children to receive best-quality education, it is imperative we attract the best and the brightest into the teaching profession. We must have a high bar for entry into the profession, with top-quality institutes for developing their capacities. It is essential to professionalise teaching, such that multiple career tracks and avenues for growth (e.g. subject matter experts, curriculum developers, teacher educators, principals/ heads of institutions) are available to our teachers.

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Great leaders make great institutions. Imagine a system where the senior most employee in an organisation is made the CEO. Today, unfortunately, our government school system appoints principals based primarily on seniority. We need a process for selecting our school principals and heads of institutions based on merit. Further, we need to invest in equipping these institution heads with skills that can enable them to move beyond administrative functions and assume larger leadership roles.

3. Technology for personalised learning and quality at scale:

Technology has the potential to create new models of learning and achieve impact at scale. We must invest in a strong technology backbone, focusing on hardware and software development across our school and higher education institutions. Educators must be trained to inte-

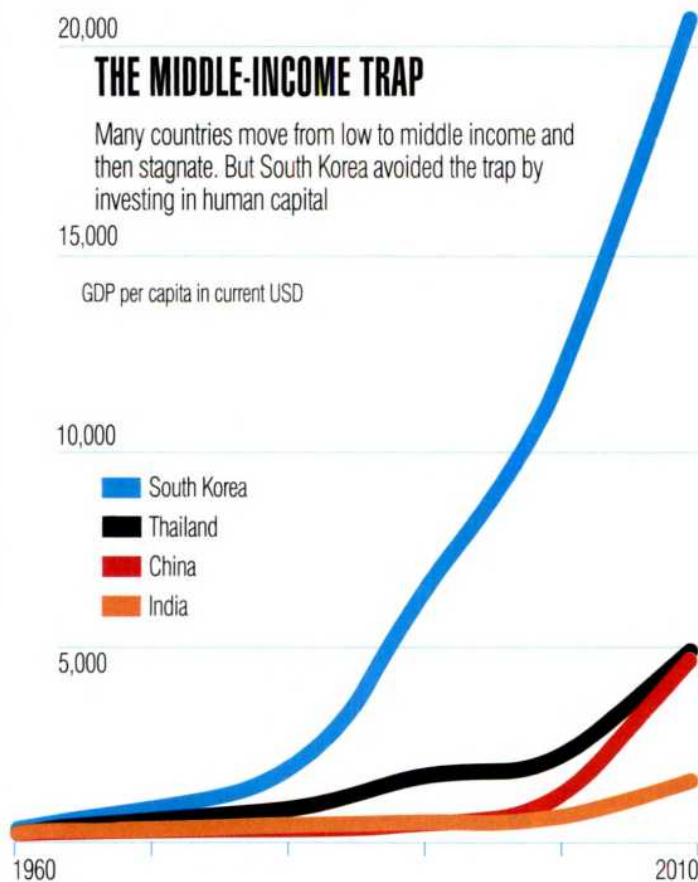
grate technology in their pedagogy for effective classroom delivery. Developing high-quality Massive Online Open Courses (MOOCs) and personalised learning resources in local languages can go a long way in balancing the tension between equity and excellence at scale. Blended MOOC platforms such as SWAYAM (Study Webs of Active-Learning for Young Aspiring Minds), which was recently announced by the government and is being developed by IIT-Bombay, could deliver high-quality training to teachers at scale.

4. Integration between various stages of the education system:

We cannot expect a business to deliver the best results if every step in the operational cycle is not properly linked to the next step. Adequate resource investment during each step of the cycle is critical for a business to achieve its goal.

Similarly, we cannot expect our citizens to realise their full potential if we don't invest in every phase of their education journey. We must start by recognising that early childhood education lays a strong foundation and ensure that every child receives it as part of the formal schooling system. As we move to primary education, we should focus on strengthening every child's literacy and numeracy skills. Secondary education should focus on enhancing employability and college readiness through vocational education, college preparation and career counseling. Eventually, as an individual pursues higher education, we should ensure she receives 21st-century skills such as writing, communication, critical thinking and collaboration, which will make her an informed and productive citizen.

A high-quality education system is a pre-requisite for our country to achieve global excellence. For addressing India's education crisis, we require resolute political leadership with a clear vision for education that is able to unite the forces of government, corporate houses and civil society organisations towards building the nation of our dreams. ♦



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BT ANNIVERSARY **2015**



By
**K. Srinath
Reddy**

ABOUT: As a health policy wonk, Dr K. Srinath Reddy keeps a hawk's eye on all matters of public policy in India. Given the country's poor health coverage and high incidence of disease, Reddy, former head of the cardiology department of the All India Institute of Medical Sciences, passionately advocates cardiovascular health, tobacco control, chronic disease prevention, and healthy living

ILLUSTRATION BY AJAY THAKURE

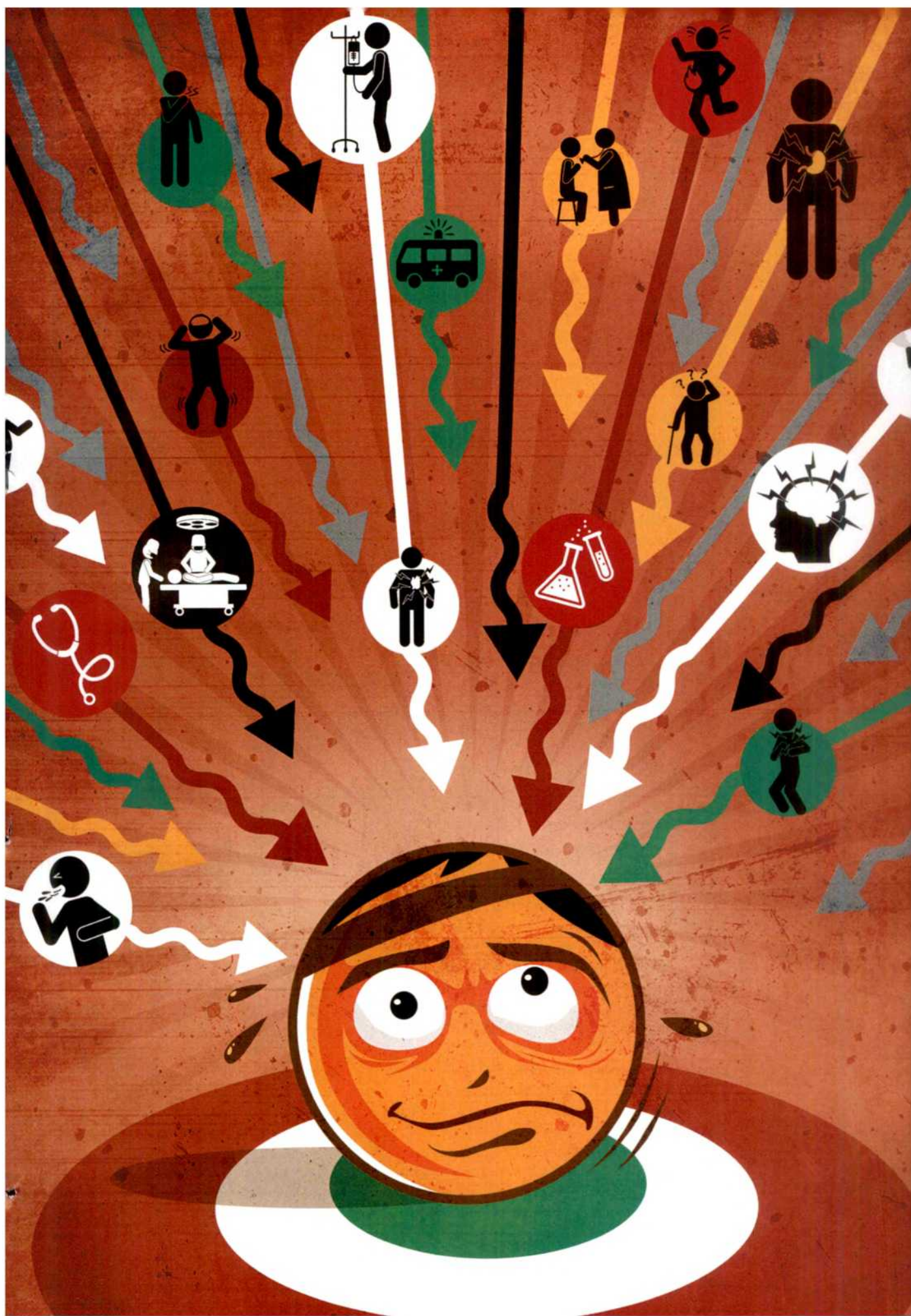
HEALTH CARE

India's demographic dividend will be productive only if workers remain healthy and fit

WILL HEALTH HOBBLE THE ECONOMY?

India is an ancient civilisation but has the largest proportion of young people in the world. More than half of India's population is under the age of 25 years and 65 per cent of the population is below the age of 35. The working-age population (15-64 years) constitutes 64 per cent of the population. At the global level, every fifth person below 25 years of age is an Indian (soon it will be every fourth).

An increase in life expectancy will add to the numbers of elderly persons, but the population will retain the present profile of young and middle-aged persons for the next two decades. This demographic profile can boost productivity and spur economic growth in the coming years. However,



ACCORDING TO THE WORLD ECONOMIC FORUM, India stands to lose \$4.58 trillion between 2012 and 2030 due to non-communicable diseases

this assumption is based on the premise that the young will grow healthy, gain education and gather skills, and their middle-age years will remain a period of good health and high productivity. But it may be belied by health threats that can drain the demographic dividend.

We still have an Infant Mortality Rate of 40, which is nearly four times higher than in Sri Lanka and compares poorly with Bangladesh and Nepal.

Many of the surviving babies grow in an appalling state of malnutrition, with over 40 per cent of the children under three years being underweight and eight out of 10 being anaemic. This makes them prone to severe infections in childhood. They are more likely to develop diabetes and heart disease in early adulthood. The huge loss of potentially productive brain power, due to compromised learning ability and unrealised intellectual potential, is a major economic threat arising from childhood malnutrition. Only 64 per cent of our children are fully immunised, compared to over 95 per cent in most of the developing countries. Many under five years of age still die from diarrhoea and pneumonia. As girls reach adolescence and womanhood, they face the adversities of under-nutrition (33 per cent), anaemia (57 per cent), early marriage and ill-prepared

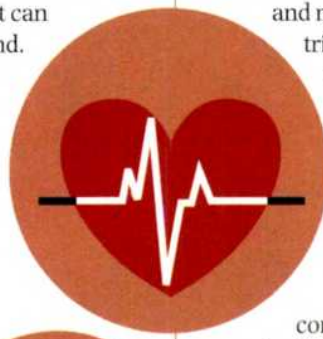
pregnancy – all of which contribute to the inter-generational perpetuation of poor health and nutrition. Maternal mortality is also high, at 178 per 100,000 live births, and is six times that in Sri Lanka and four times that in China. While incentives offered under the National Rural Health Mission have increased the number of institutional deliveries, there are still deficiencies in the quality of services in many health facilities they go to.

Other threats loom large in adulthood. A horde of non-communicable diseases is inflicting damage to health and economy, if allowed to advance unchecked.

Currently, cardiovascular diseases, diabetes, cancers, chronic respiratory disorders and mental illness collectively contribute to 60 per cent of deaths and are projected to rise sharply by 2030. According to the World Economic Forum, India stands to lose \$4.58 trillion between 2012 and 2030 due to these non-communicable diseases.

India has a major cause for concern because nearly half of the deaths and disability related to them occur before the age of 65. Heart attacks strike early, a decade before the average first heart attack in the West. It has been estimated that India lost 9.2 million potentially productive years of life due to untimely cardiovascular deaths in the age-group of 35-64 years in 2000 (570 per cent more than the US) and is projected to lose 18 million years in 2030 (900 per cent more than the US). The numbers with diabetes are mounting. Tobacco kills over a million each year and mental illness brings misery to millions.

Air pollution is damaging the health in cities and rural areas. Road traffic accidents and other injuries have taken the lives of 1.1 million in 2010, a rise of 57 per cent from 1990. Of this, 68 per cent of the deaths happened to people below 49 years of age. Deficient primary health services result in easily treatable conditions advancing to complications that demand expensive care. Low levels of



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public financing for health leads to high levels of out-of-pocket spending; at 70 per cent it is among the highest in the world. This leads to denial of care or impoverishment. About 60 million Indians are pushed to poverty each year by health care expenditure.

All of these trends portend poorly for the young as they grow amidst India's multiple health challenges. However, the future need not be bleak. Political will and professional skill can combine to create a more robust health system with focus on primary health services. Actions in other sectors can be aligned to public health objectives. People can be empowered with information and enabled by technologies to protect, preserve and promote their health.

Even crises can be turned into oppor-

2017 and at least three per cent by 2022. This will help reduce out-of-pocket expenditure to less than 50 per cent, even as the Universal Health Coverage (UHC) programme is implemented.

If all the states have favourable social determinants of health like Kerala and a well-functioning public health system like Tamil Nadu, the health indicators of the country will improve remarkably. Implementation of a well-designed UHC programme will advance health even in those two states. Scaling up the use of emerging technologies like the Swasthya Slate (www.swasthyaslate.org), which was recently listed by the *Wall Street Journal* among the six health care technologies with the highest potential for mass impact and is now being used by frontline

PUBLIC FINANCING OF HEALTH MUST GO UP FROM 1% OF GDP TO AT LEAST 2% BY 2017 AND AT LEAST 3% BY 2022. This will help reduce out-of-pocket expenditure to less than 50%, even as the Universal Health Coverage programme is implemented

tunities. While our health workforce is short of doctors, nurses and allied health professionals, there is a demand for more of them in the health systems. Investing in large-scale skilled health workforce development can provide millions of jobs to young people. By using its strengths in the information technology sector, India can become an innovation crucible for developing low-cost, high-yield models of health care delivery. The growth of the Indian pharmaceutical sector, in response to the rising global demand for generics, can also increase employment opportunities.

Transformational changes will require health system re-design and resource allocation at a higher level. Public financing of health must go up from one per cent of GDP (which places India in the bottom 10 of all countries) to at least two per cent by

health workers in Jammu and Kashmir, can quickly improve the outreach and effectiveness of our primary health services.

India's demographic dividend can be realised only if our human resources are nurtured well. Increased investment in health will bring huge returns in terms of economic gain. That was the conclusion of the Commission on Macroeconomics on Health (2001) headed by Jeffrey Sachs and the Commission on Investing in Health (2013) headed by Lawrence Summers. This is also the message that comes strongly from the World Health Organisation as well as the World Bank. Indian economists and business leaders would do well to pay heed, as would India's political leaders who wish to propel the country on a path of accelerated development by harnessing our youth power. ♦

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BT ANNIVERSARY **2015**



By
**Manoj
Kohli**

ABOUT: Manoj Kohli is Managing Director of Bharti Enterprises and is responsible for the growth of the group's retail, financial services, agri-products, retail and other businesses. His 35-year-long career has been equally split in manufacturing and telecom jobs. He chairs the CII's task force on Ease of Doing Business

BUSINESS REGULATION

No one disagrees that doing business in India is a nightmare. How can that be changed?

THE DIFFICULTY OF MAKING IT EASIER

Hope is palpable in the air as the new government prepares to celebrate its first New Year in power. Quite clearly, we have once again started to dream about becoming the dominant global economic power so befitting for a nation of 1.25 billion people. But notwithstanding the present government's firm resolve to drive forward key economic reforms, regaining the lost momentum will not happen by default. I firmly believe that rediscovery of the momentum will depend as much on the broad macro-level reforms as on the

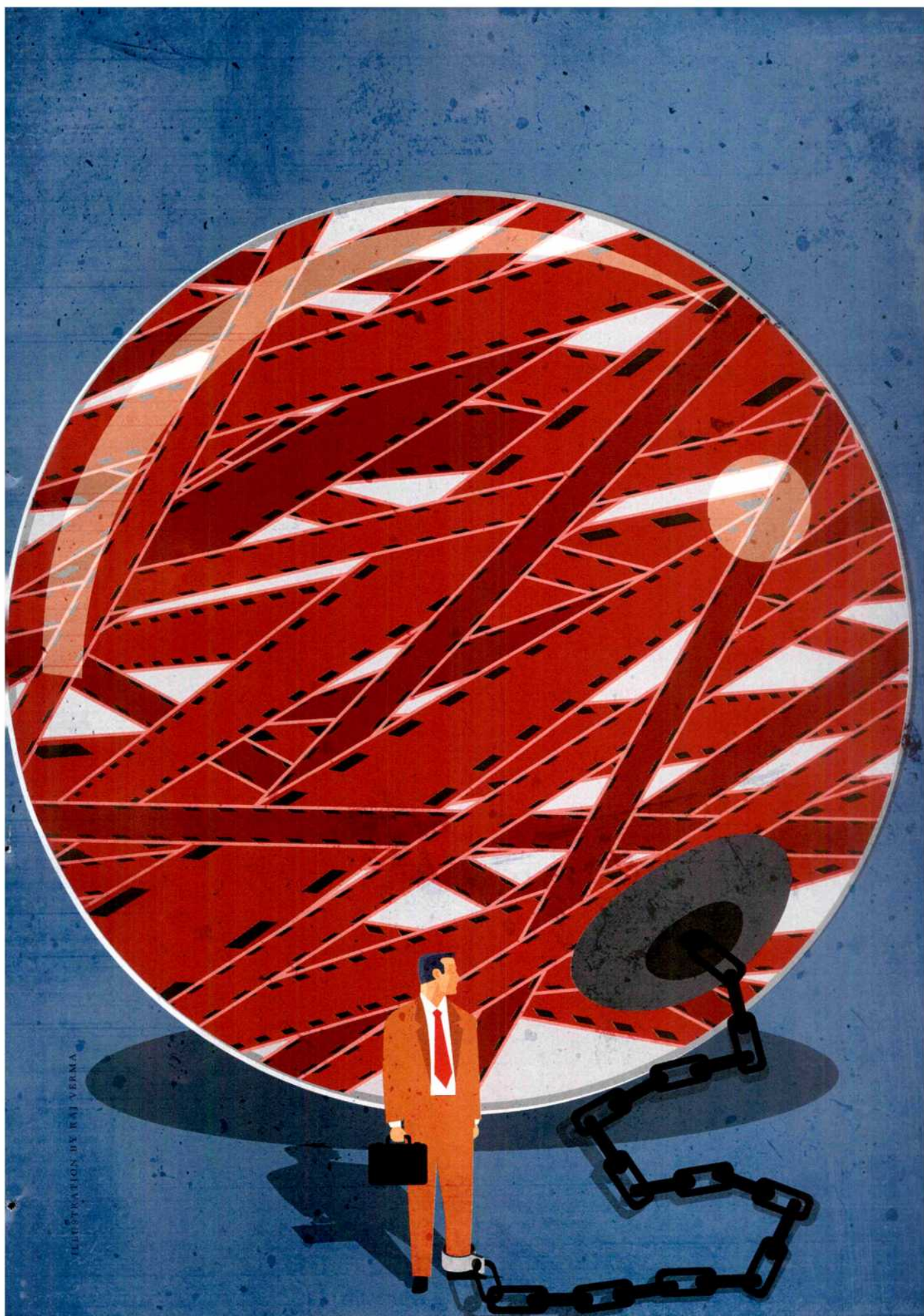


ILLUSTRATION BY RAJ VERMA

**INDIA HAS MOVED QUITE SOME DISTANCE
IN TERMS OF MACROECONOMIC REFORMS,
though we could have done much better having
embarked on the historic 'change of course'
more than two decades ago**

tangible on-ground initiatives that make life easy for India's ebullient entrepreneurial class. The coming Budget is likely to be a defining document on this score, setting this process on the rails.

There is little doubt that India has already moved quite some distance in terms of macroeconomic reforms, though we could have done much better having embarked on the historic 'change of course' more than two decades ago. The impact of these reforms, as I see them, has at best been sub-optimal. They have not quite made India the most exciting place on earth for domestic and global entrepreneurs – the real driving force in an emerging economy like ours – notwithstanding the outstanding success stories of some of our celebrated business leaders like Sunil Bharti Mittal, N.R. Narayana Murthy, Dilip Sanghvi and Uday Kotak. Most of these success stories appear to have been realised largely through the exceptional zeal and perseverance of these entrepreneurs when different sectors of the economy were opened to the private sector and foreign capital was allowed full play in a hitherto closed economy.

Unfortunately, India's ranking on the World Bank's 'Ease of Doing Business Index' has remained more or less stagnant, in the 130s and 140s, over the last few years in a list of 189 countries. This reflects poorly on the country's ability to provide a conducive environment for entrepreneurs. Even much smaller countries like Sri Lanka, Nepal and Pakistan have fared better. The reason perhaps lies in the old saying 'the devil is in the detail'. Liberalisation at the macro level has not quite been followed up with changes in the routine proc-

esses that businesses negotiate on a daily basis, starting from simple company registration to land acquisition to filing of regulatory compliances.

It's perhaps time to engage in another spell of deep introspection, much the same way we did when we embarked on the historic change of course in 1991. However, unlike 1991, the approach is going to be oriented towards micro processes in the business environment. As the Chairman of the CII's Task Force on 'Ease of Doing Business', I had the privilege of diving deep into some key dimensions of what makes India so business-unfriendly. While a large part of India's business unfriendliness can be attributed to archaic, non-transparent and irrational laws, in some cases it's our lack of proactive thinking that has contributed to such a situation.

Today, a complex maze of approval systems hobbles projects of all kinds. A construction permit requires up to 20 permits and it takes over two months to obtain them. It takes about seven to eight months to obtain a Category A environmental clearance. End-to-end automation of government approval processes involving both central and state governments is an idea which can help reduce approval periods dramatically. Applications, instead of moving through different government departments sequentially, can be considered concurrently by respective departments to facilitate simultaneous approvals.

Availability of land is a critical input for businesses such as manufacturing and infrastructure. Ironically, the new Land Acquisition Act has only worsened the situation by bringing into force some extremely complicated provisions. Obstructionist clauses like obtaining the consent of 70 per cent of project-affected families in case of public-private partnership projects and 80 per cent families in case of private sector projects are expected to increase the average acquisition time to about 56 months. A dramatic drop in land acquisition after the Act came into force reflects the aggravating situation. The Act not only needs to be rationalised at the earliest but needs to be supplemented with appropriate amendments in state laws.

Archaic labour laws constitute an-



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Selection Centres and Dates : Ahmedabad(11th Feb), Amritsar(8th March), Bangalore(7th March), Belgaum(25th Feb) Bhopal(10th Feb), Bhubaneswar(27th Feb), Chandigarh(14th Feb), Chennai(25th Feb), Coimbatore(17th Feb), Dehradun(25th Feb), Delhi(28th Feb), Gangtok(26th Feb), Goa(21st Feb), Guwahati(23rd Feb), Gwalior(11th March), Hyderabad(15th Feb), Indore(3rd March), Jaipur(12th Feb), Jammu(13th Feb), Kochi(1st March), Kolkata(21st Feb), Kota(23rd Feb), Lucknow(17th Feb), Mumbai(1st March), Nagpur(8th Feb), Patna(19th Feb), Pune(Round 1 : 14th Feb & Round 2 : 14th & 15th March), Raipur(23rd Feb), Ranchi(9th March), Trivandrum(19th Feb), Varanasi(3rd March), Vijayawada(4th March).

Sri Balaji Society has signed a MOU with SAP India Pvt Ltd for a 200 hours online training on 6 modules of SAP (SD,MM,HR,FI, CO and ABAP) which can be completed simultaneously during the PGDM course.



Dr. (Col) A. Balasubramanian
President, Sri Balaji Society

NOTE

All the four management institutes of Sri Balaji Society are located in one campus in Pune. We have no other branch or management institute anywhere else in India. Students are advised to check our website www.balajisociety.org and are cautioned not to get carried away by the similarity with the name of Society.

other long-standing irritant for industry. Too many labour laws, many of which are outdated with marginal changes carried out in them over the years, continue to complicate matters particularly for small and medium-scale industries. The exclusive focus of these laws on job protection does not provide for flexible manpower deployment, making them extremely industry-unfriendly. Today, entrepreneurs are unable to opt for dynamic deployment of manpower through contract labour. Since smart labour deployment lies at the heart of excellence in manufacturing, simplification and rationalisation of the laws is a necessary precondition for making India a global manufacturing powerhouse like China. Introduction of single 'annual inspection' by all inspectors or innovative

laws etc. The formalities not only entail significant compliance costs but lock precious funds and capital assets in non-viable businesses that could be productively employed in other ventures. Global best practices can be of great help here. The UK's liquidation processes and US bankruptcy laws can be great examples to emulate.

India's complex and multi-layered tax structure (central, state, local) not just make it a difficult place to do business but make it a high-cost place as well. The new Goods and Services Tax, so rightly seeking to get rid of this 'one country, several markets' syndrome, has long been pending because of lack of consensus among state governments. It's high time all stakeholders come on the same page to drive home this critical reform at the earliest to realise

India's complex and multi-layered tax structure not just makes it a difficult place to do business but makes it a high-cost place as well. The Goods and Services Tax has long been pending because of lack of consensus among state governments

methods like 'third-party inspections' and 'self-certification' for units up to a certain size can improve matters to a large extent.

Contract enforcement and dispute resolution within well-defined time lines is a critical driver of business in developed markets. At present, it takes several years for a commercial litigation to achieve finality. We need to urgently strengthen the institutional mechanism by increasing the number of courts and tribunals with requisite infrastructure to enable them to function efficiently. E-enablement of the entire dispute resolution process through introduction of e-filing and e-service across courts can dramatically improve the pace.

Entry of new companies and exit of failed ones is a part of life. Unfortunately, exit procedures for Indian companies continues to be quite complex involving multiple and time-consuming formalities under various corporate laws, tax laws, labour

our dream of 'one country, one market'.

The idea of 'Make in India' takes me back to my days in the 1990s in the manufacturing industry, when I visited several emerging economies in Asia to set up manufacturing facilities. In the Pudong area of the Shanghai Industrial Park, we received all requisite approvals linked to electricity, water, roads and blue and white collar employment permits to start our operation in less than four weeks. I had similar experience of proactive application processing and cooperation in the Jebel Ali Free Economic Zone in the UAE and Singapore's Jurong area. In both the locations we received the requisite approvals much before we expected them. All the three locations went on to emerge as vibrant manufacturing hot spots in Asia, showing us what streamlined application processing can achieve.

The changes on the whole have to take



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**THE CHANGES HAVE TO TAKE PLACE
AT TWO LEVELS: 1) REPLACE ARCHAIC,
OPAQUE AND DYSFUNCTIONAL REGULATIONS
with rational and transparent laws that simplify
business processes; 2) create new supportive
structures that aid business efficiency**

place at two levels: 1) replace archaic, opaque and dysfunctional regulations with rational and transparent laws that simplify business processes to save on time and reduce cost; 2) create new supportive structures that aid business efficiency. The second type of intervention may not have much to do with legal processes but may involve large-scale investment in technology and hard infrastructure. In fact, most advanced streamlined business processes in developed markets, besides being rational and transparent, are running on heavy doses of technology infusion. The other element here could be hard infrastructure. Take, for instance, the turnaround time at our ports, a key enabler for international trade. The average turnaround time at major ports in India is 4.29 days as compared to less than a day at major international ports like Singapore and Rotterdam. It is very difficult to change the present situation without making large investments in port modernisation.

Adopting best practices both from international and domestic sources is going to be critical. It may appear a little strange that states in India vary enormously as far as adoption of modern business practices is concerned. Take, for instance, the case of e-DharaBhulekh (GIS-enabled computerisation) initiative in Gujarat that has enabled computerisation of land records, registration and title mutation process. The initiative has reduced property registration time from three days to three hours. It now takes just one hour instead of two days to issue various certificates. The point I am trying to make here is that there already

exists great opportunities for cross-learning even within the country as far as best practices are concerned.

The new government has already outlined a strategy to improve India's position in the World Bank's 'Ease of Doing Business' ranking from 140 to 50 in the next two years. The most gratifying part of this initiative is that it is being guided by the Prime Minister's Office, which lends a sense of urgency into the initiative. But one must realise that such transformation will perforce be multi-dimensional and extremely complex and require coordination not just among different departments at the Centre but seek active cooperation from the states as well. The important element in this transformation could be calibrated and synergistic roll out of changes with definitive time horizons attached to particular elements of change.

The enormity of the potential economic opportunity of such transformation is well mapped out in the CII-KPMG Report (Vibrant India: Best Place for Doing Business – An Action Plan). The change in business environment can potentially create 25 million more jobs and ₹8 lakh crore incremental GDP over five years.

Having watched the current government and its pro-reform approach over the last six months, I am fairly convinced that we are in the right hands, which can sail us through such a complex challenge. The improvement in India's business friendliness is not going to happen in one sudden burst of change, but would rather happen in a gradual and incremental way seeking to usher in a fundamental cultural change in government administration. It's not going to be a one-stroke affair as is the case with policy change. Change will require to be extremely broad-based involving numerous on-ground stakeholders and could fundamentally redefine the way India works. We have to be patient. People may not celebrate these changes like the big-bang reforms, but when accomplished, they can empower India's impatient entrepreneurial class decisively, which can in turn make India what it deserves to be – an economic powerhouse that not just lives for itself but gives wind to the sails of the global economy. ♦

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BT ANNIVERSARY **2015**



By
Shiv Nadar

ABOUT: Shiv Nadar is among India's most successful first-generation entrepreneurs who took a bet on high-tech when it was a tiny business. What makes his company HCL's journey different from that of its peers is its strong engineering roots. The HCL group, with revenues of some \$7 billion, is focusing on education and health care as the next two businesses it wants to make a big impact in

ILLUSTRATION BY AJAY THAKURI

ENTREPRENEURSHIP

What it takes to succeed as a businessman in a country where doing business, especially for small enterprises, is a challenging task

AN ENTREPRENEUR'S GUIDE TO SUCCESS

I have always maintained that entrepreneurship is a state of mind. It's a state in which you have to be flexible, alert, aggressive, inspiring and positive and use every low as a learning opportunity to bounce back. My journey to build HCL has been a roller coaster ride – with highs and lows; with its adrenaline rushes; with its setbacks and learnings, and finally, with a lot of fun. I am keeping this anecdotal to help whoever reads this connect with real-life situations – something that I believe many young entrepreneurs or aspiring ones may find useful.



Distribute Work, be Flexible

Most entrepreneurs make the mistake of inadequate bandwidth creation and utilisation. From the very beginning, we ensured that we had people amongst whom we could divide work. So, an organisational structure was put in place even before we had office space. Our bandwidth came from the partners or executives we had hired.

Once, we tried to apply for a loan at Syndicate Bank. So, I took the first meeting with the bank because I was the Managing Director even if the company was too small at that time. After the meeting, my fellow director stayed back to complete the documentation and get the loan.

There is one bank where I used to go every day and check what all has been

was. So we went for a 10 p.m. show and after the movie, I saw that the lights on the eighth floor (HCL office) were still on. I saw all those lights and wondered: it's a very wasteful habit to leave the office lights on. When I shared this with my wife, she said: "I think everybody else is working except you, who has taken his young wife out for a film." The elevator had stopped working late in the night, so we decided to walk up. When we reached, we saw everyone was there. Everyone just loved the company and did not want to go home.

Even during the start-up years, we never made any compromise on the quality of hires. We have always gone to the IITs and IIMs from our early days. The reason we could attract some of the best

IF YOU ARE JUST AN ENTREPRENEUR, YOU HAVE TO DO ALL SORTS OF THINGS... FIRST, YOU NEED TO TAKE UP ANY WORK IRRESPECTIVE OF WHO YOU ARE in the hierarchy. Second, there is only so much you can do as an individual. You need to distribute work among your team members

debited and what all is credited. I used to do that to see the daily cash balance. It was just that we were running with very tight cash balances.

If you are just an entrepreneur, you have to do all sorts of things and you have to ignore everything else. The simple point that I am trying to make is that first, you need to take up any work irrespective of who you are in the hierarchy. Second, there is only so much that you can do as an individual. So you need to distribute work among your team members.

Create a Rich Work Environment

One day, my wife dragged me to watch a film with her. There is a movie theatre called Paras in Nehru Place in Delhi, which is where our first registered office

was. So we went for a 10 p.m. show and after the movie, I saw that the lights on the eighth floor (HCL office) were still on. I saw all those lights and wondered: it's a very wasteful habit to leave the office lights on. When I shared this with my wife, she said: "I think everybody else is working except you, who has taken his young wife out for a film." The elevator had stopped working late in the night, so we decided to walk up. When we reached, we saw everyone was there. Everyone just loved the company and did not want to go home.

Identify Opportunities, Reinvent Yourself Constantly

The US economy went into a recession in early 2001. The stock market crash prolonged into 2002 when Nasdaq touched a low of 1,100 (one-fifth of its peak). Dow Jones touched a low at 7,200 levels, losing \$5 trillion from the January 2001 levels. Nearly 76 per cent of our revenues at that time came from the US. We were pushed to the corner and had no choice but to look for new opportunities and create our Next

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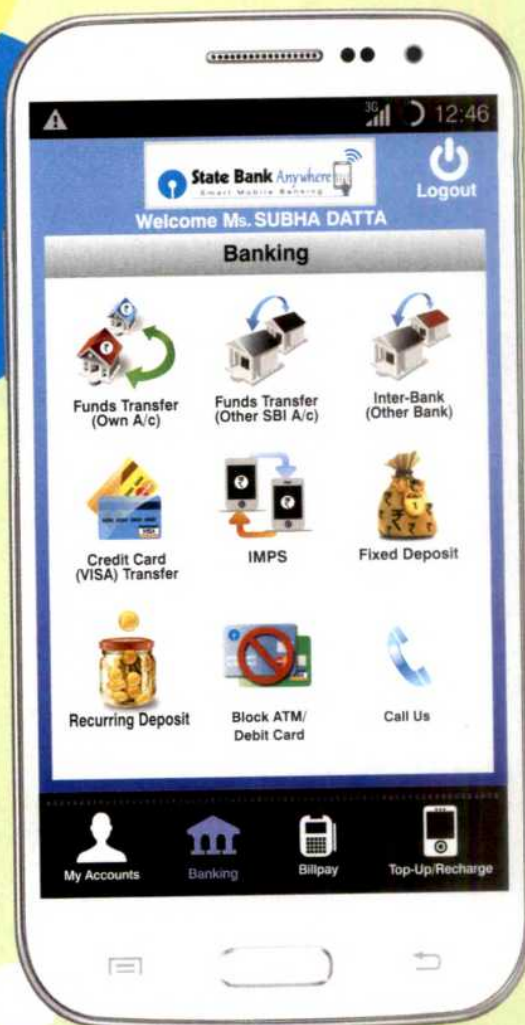
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I AM FEARFUL, BUT I DO NOT ACT ON FEAR... I HAVE ALWAYS BELIEVED THAT THE PARANOID STRIVE FOR THE BEST, but are always prepared for the worst. One needs to identify and exploit every crisis point that challenges the business

Big Practice.

HCL, at that time, had some anchor customers in health care and aerospace. Our ability to leverage our core skills in hardware, software and networking opened up two whole new markets and revenue streams for us. We consciously invested in building new competencies, tools and processes. The ERS (Engineering and R&D Services) practice in HCL is one of our key growth pillars and contributed 17.1 per cent to our revenues in the first quarter of 2014/15.

Only The Paranoid Survive

I am fearful, but I do not act on fear. Andrew Grove's book *Only The Paranoid Survive* is very close to my heart. I have always believed that the paranoid strive for the best, but are always prepared for the worst. One needs to identify and exploit every crisis point that challenges the business.

In the 1970s when we started, HCL had five products. The minicomputer was our big bet. It failed miserably and we stopped production. The 8-bit processor system was a big success and lasted 12 years. The KTMF (Key to Mini Floppy) ran for 15 years but our cash register bombed. However, the programme calculator kept the fireplace going.

The NIIT story is another fitting example. In those times, we needed to invest in training but could not afford to actually put our profits back into training. While the industry badly needed trained manpower and we were struggling to find the re-

sources, no one had the financial muscle to invest in training. I went to Singapore and visited Edutronics, a training company, and saw the first opportunity. NIIT was born in 1981. In 1997, NIIT crossed \$1 billion, the biggest success story in technology training in India.

The Board Matters

As the organisations grow, the role of your board becomes increasingly important and critical to your success. The questions to ask are:

- How do you look at board formations?
- How do you take a risk decision in the board?
- How often does a father and a son disagree in the board and if there is a disagreement, whose decision carries through?
- How many family members are there on the board?
- How important is professionalisation of a board?
- How closely do nominations and remuneration committees evaluate the CEO's and the CFO's performance? How long does it take to decide on a salary?

The example of an effective board in the current times is that of Microsoft. The company has been led by two iconic men in technology – Bill Gates and Steve Ballmer. Microsoft's market capitalisation in the second week of November was \$410 billion. What was it on the day Ballmer said he was stepping down? About \$290 billion. And what was the cash balance on both days? \$90 billion. So the enterprise worth shot up exponentially on the leadership transition. This happened because the board acted in the best interest of the organisation and shareholders.

Finally, let me leave you with these tenets of success:

- Focus on the weak signals and make the most of the environment.
- Ensure that your aspirations exceed your resources.
- Connect the dots.
- Create nimble organisations.
- Stay paranoid, stay successful. ♦





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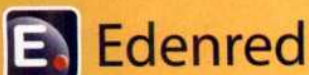


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- 13.12.2014: इंडियन ओशन
- 14.12.2014: कैलाश खेर और 'कैलासा'





BT ANNIVERSARY **2015**



By
Sharad Sharma

ABOUT: A co-founder of iSPIRT, a non-profit think tank championing Indian products, Sharad Sharma calls himself an evangelist of the software product ecosystem in India. He is the former CEO of Yahoo India R&D

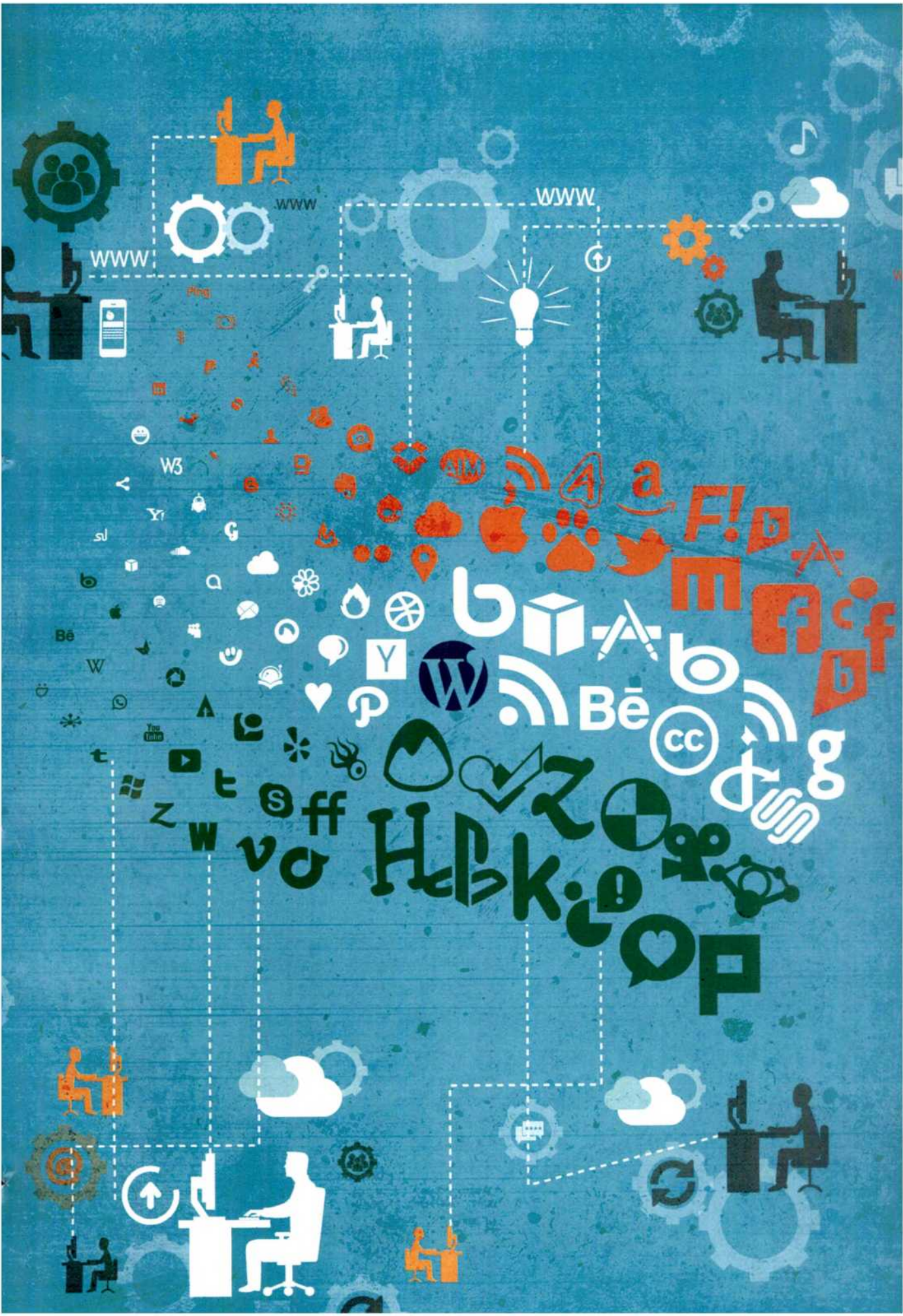
ILLUSTRATION BY RAJ VERMA

IT PRODUCTS

A country well known for its software services now has an opportunity to build world-beating software products

BABY STEPS TO AN INDIAN MICROSOFT

At a recent corporate awards ceremony, Tata Consultancy Services (TCS) was crowned as the company of the year. Piyush Goyal, the Minister of State for Power, Coal and New & Renewable Energy hurriedly stepped up to the lectern after the award was given. He told the assembled glitterati that TCS had promised to give the All India Institute of Medical Sciences (AIIMS) a modern, nay, world-class hospital management system by March 31. In the tentative clapping that ensued I heard a big



snort from my right. The scepticism of the gentleman sitting next to me was rooted in the belief gaining ground that bespoke software systems were outdated and presented a sub-optimal choice.

The predicament of enterprise technology clients stuck with archaic bespoke software systems is no longer common. Bespoke software systems fell out of favour 20 years ago. Firms switched en masse to on-premise enterprise software products. They were cheaper, easier to upgrade, and yet extensively tailored to their needs. This shift in the late 1990s created two sets of players: product vendors like SAP, and implementation consultants like IBM Global Services and Accenture. Soon, Indian IT services players like TCS, Infosys and Cognizant muscled into the game and grabbed consider-

able market share. The scepticism of the gentleman sitting next to me was rooted in the belief gaining ground that bespoke software systems were outdated and presented a sub-optimal choice. The predicament of enterprise technology clients stuck with archaic bespoke software systems is no longer common. Bespoke software systems fell out of favour 20 years ago. Firms switched en masse to on-premise enterprise software products. They were cheaper, easier to upgrade, and yet extensively tailored to their needs. This shift in the late 1990s created two sets of players: product vendors like SAP, and implementation consultants like IBM Global Services and Accenture. Soon, Indian IT services players like TCS, Infosys and Cognizant muscled into the game and grabbed consider-

The Growing Schism

Another breed of enterprise product vendors is emerging. Companies like Workday and Salesforce personify this new wave. They offer on-demand products. These require less customizations and work on cloud-based data centres. So, as Workday says on its website, they are a "fraction of the cost of upgrading from their incumbent vendors". Naturally, customers love these new-gen-

Unfortunately, our IT services firms became protectors of status quo in the government sector. While it helped them milk their fading bespoke systems for longer, it also created crumbling government systems and robbed the nascent product industry of a big market

able market share.

Lost in this success story is the narrative about Indian enterprise software product vendors. For instance, iFlex built a great enterprise software product for banks, which Oracle snapped up for a billion dollars in 2005. Kochi-based IBS is a leading product vendor for airports and airlines, and is now big enough for an IPO next year. PARAS, a hospital management product from Bangalore, is grabbing the industry limelight by winning global deals involving hundreds of hospitals.

If the Indian IT industry has benefited from the shift away from bespoke systems, why did AIIMS miss the bus? In general, why has our public sector been so slow to buy enterprise products? Government officials are not to blame for this. Unfortunately, our IT services firms

became protectors of status quo in the government sector. While it helped them milk their fading bespoke systems for longer, it also created crumbling government systems and robbed the nascent product industry of a big market

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THE COUNTRY THAT GAVE ZERO, CALCULUS, YOGA AND CHESS TO THE WORLD IS DREAMING AGAIN. *It's not satisfied being a back office for everybody. It dreams of powering the future with its ideas and inventions*

products, did its roaring IPO earlier this year, it listed six key competitors in its SEC [US Securities and Exchange Commission] filing. Four of these – Kayako, Freshdesk, Supportbee and Tenmiles – are Indian! Indian SaaS product players are becoming global category leaders. Zoho, for instance, sells a CRM (customer relationship management) product at \$12 per salesperson per month and is the market leader in this mid-market segment. It is flanked by Salesforce in the enterprise segment (at \$60 per salesperson per month) and a raft of players, mostly Indian, in the SMB segment (at \$3 to \$4 per salesperson per month).

This availability of, say, CRM software product at every price point is a big new story in the IT industry. Unlike cars or smartphones, we have never had different software products to cater to every price segment. SaaS has changed this. As a result, everybody can now afford a software product. Hopefully, this time, government policy will build on this new generation and not let incumbents hold things back.

My Cup Runneth Over

Two other pockets of explosive growth are exciting. One is the much-discussed rise of the digital consumer in India. This has led to the birth of Flipkart, Ola Cabs, Stayzilla, Newshunt and others. The other pocket is less sexy but it's even bigger. It has to do with software infrastructure.

Old software infrastructure is being replaced at a pace previously unseen and is creating lots of product opportunities. Data explosion is driving endpoint data protection and governance products.

Video explosion is driving dynamic ad insertion products. E-commerce growth is driving a new generation of search infrastructure products. Corporate mobile use is driving new agentless Bring-your own-Device security products. Social media is driving real-time social media analytics products. Now here is the punch line: in each of these categories, the emerging global leader is an Indian company! This is an unbelievably powerful development. For instance, Druva, a Pune-based start-up, is the global market leader in end-point data protection and governance and is set to do an initial public offering in the US in 18 to 24 months.

Daring to Dream

Behind this optimistic turn of events is a new type of a technology entrepreneur. He (and, sadly, its mostly he so far) is unshackled from the restrictive dream of being the world's back office. He doesn't think in terms of labour arbitrage. He is a missionary, a creator and disruptor of status quo. And he has a blazing desire to change the world.

Team Indus embodies this spirit. This team is a motley group of passionate technologists that aims to land a robotic craft on the Moon by December 2015. This is literally a moon shot. Not altogether surprising to many of us, this team has emerged as one of the top three teams in the prestigious Google Lunar X-prize!

There are other moon shots in the works. Some are pivotal to developing our defence, aerospace and electronics industries. Others are about building highly affordable software products that will bring competitiveness to small businesses, teaching effectiveness to schools, productivity to health-care centres and new skills to farmers. Let's not blow this chance. Let's give these efforts the policy oxygen they deserve.

The country that gave zero, calculus, yoga and chess to the world is dreaming again. It wants to retake its rightful place in the world. It's not satisfied being a back office for everybody. It dreams of powering the future with its ideas and inventions. It dreams of being a product nation! ♦



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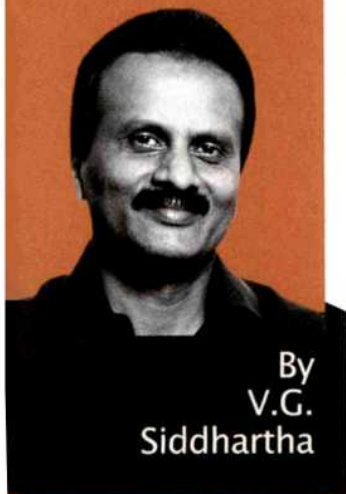


For more information, contact Mr. Akhilesh Kumar Mob: +91 9810709822 Email: akhilesh.kumar@organicindia.com Website: www.organicindia.com



BT ANNIVERSARY

2015



By
V.G.
Siddhartha

ABOUT:

He is the Chairman of Amalgamated Bean Coffee Trading Company, which owns the Cafe Coffee Day chain of outlets. Siddhartha, who started coffee retailing in 1996 is one of the few entrepreneurs in India straddling the entire value chain in an agri produce – in this instance, right from coffee plantations to processing to trading to manufacturing coffee machines to coffee retailing

ILLUSTRATION BY AJAY THAKURI

FARM TO FORK

India needs to support small entrepreneurs in farm processing and value-added retailing to create jobs for those at the bottom of the pyramid

REAPING VALUE FROM AGRICULTURE

It was in 1994 that the potential of the coffee sector and retail in particular, and the agriculture sector in general, was brought home to me in a telling fashion during a meeting with a director of Tchibo, Europe's second-largest coffee roaster. The director took me through the company's origins, and how the Tchibo family first began in a small 10x10 feet shop, which in Hamburg [Germany] would not have cost more than \$100 in 1948. This conversation had a huge impact on me... that a 10x10 ft operation could grow to 200,000 tonnes of branded coffee in 45 years!

India's population has crossed 1.25 billion and nearly 65 per cent is dependent on agriculture



and allied sectors. Yet, the contribution from this sector to the country's gross domestic product (GDP) is only around 18 per cent.

India is the second-largest producer of agricultural produce such as fruits and vegetables, flowers and raw silk. We also produce massive quantities of wheat, rice, sugarcane, oil seeds and palm oil. But where is the advanced agro-processing, the value addition, the forward integration?

One industry that showed true potential initially was the milk industry. The classic example is Amul, whose success was largely based on two fundamental tenets Verghese Kurien propagated – one was seeding the sense

ment. Today, we at Coffee Day operate a successful "Bean-to-Cup" model. We have been able to achieve this over the last two decades mainly due to two critical factors – a sense of ownership among all stakeholders and this focus on brand-building. In the process, we have created 18,000 direct jobs. Our dream is to create 100,000 jobs.

There is much to learn in the story of coffee itself. The 1980s saw great volatility in coffee prices. The prices fluctuated from 50 cents to \$2 per pound. This fluctuation worried growers and dented their confidence in the growth potential. If not for the persistence of a few small entrepreneurs who believed in growing the ecosystem around them, the story of

It is high time the government explores innovative ways to incentivise farmers to come together in a collective way. It will change their economics, their ability to use technology, their ability to manage risk, and finally the way they negotiate to get the best prices

of ownership the farmers felt about the cooperative society and the other was building a strong brand in the form of Amul.

India's milk output has reached an estimated 140.6 million tonnes in 2014. With this, India has come a long way from being a milk deficient country in the 1970s to becoming the world's largest milk producer and consumer today. The lessons a small entrepreneur can derive and implement out of this cannot only transform the way he looks at the business operations but also the deep-rooted relationship and interdependence between various factors in an ecosystem.

One needs to realise that the entrepreneur's stake in developing his ecosystem is as important as the ecosystem's stake in a small entrepreneur's develop-

ment. Today, we at Coffee Day operate a successful "Bean-to-Cup" model. We have been able to achieve this over the last two decades mainly due to two critical factors – a sense of ownership among all stakeholders and this focus on brand-building. In the process, we have created 18,000 direct jobs. Our dream is to create 100,000 jobs.

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Today, this industry creates direct employment for over a million people, mainly small farmers and plantation workers, besides creating indirect employment for millions more. But coffee, like other agri-products, is plagued by several structural considerations. The size of landholdings is one. Ninety-five per cent of growers have less than five hectares. This scenario is particularly debilitating in almost all the other agri-products. It is high time the government explores innovative ways to incentivise farmers to come together in a collective way. It will change their economics, their ability to use technology, their ability to manage risk, and finally the way they negotiate to get the best prices.



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and infrastructure handicap that our farmers and
small entrepreneurs face? Nothing.**

The journey in this sector has just begun in India. Let me put this in perspective. Worldwide, the estimated total production of coffee in 2013/14 was 140 million bags, with an average realisation of \$15 billion to \$20 billion to farmers. But the world coffee retail industry is valued in excess of \$100 billion. The gap is starker in a country like India. This not only highlights the multi-fold benefits in forward integrating, but also underscores the potential to empower many million farmers globally, who can make their lives better by letting this wealth trickle down.

With the philosophy of "Bean-to-Cup", Coffee Day has been able to move up the chain of integration to several diverse segments, from retailing to manufacturing coffee machine, to setting up training academies for underprivileged youth that makes them employable.

The one standout thing we have learnt is that we can only grow when our ecosystem grows with us.

Along the way we also changed the culture of social gathering in this country. We made coffee cool – youngsters realised that it was not just the pubs that were great places to meet and hang out!

Now, to emphasise if such leaps can be made in other areas in which we are naturally endowed in, the farmers can truly start mining the potential to make it big.

There are many sub-sectors where

we have this edge. There is a lot of untapped opportunity in poultry, fruits, cotton and horticulture. Take fruits, and see what European brands have done by means of value addition. Fruits like strawberry, peach, kiwi, etc., can fetch a syrup manufacturer 30 times more value per kg than it would to the farmer who grows them. Why could we have not done this in India?

Our expertise and knowledge leadership in information technology can, in fact, be a huge contributor in initiating and nurturing this kind of forward integration. With Internet and mobile connectivity now available across the spectrum, what stops us from using the booming e-commerce platform to solve the distribution and infrastructure handicap that our farmers and small entrepreneurs face? Nothing. In fact, no agro-entrepreneur should underestimate what the Internet and e-commerce can do for him. As Ray Kurzweil, the Futurist and Chief Engineer at Google, predicted that 20,000 years of progress would be crammed into the next 100, thanks to technology.

Additionally, one can never overemphasise the importance of growing the ecosystem by nurturing small entrepreneurs. This will not only give us inclusive growth, but is also a step towards assured business success. And our own personal experience with coffee is a clear example.

We tend to associate entrepreneurial success and employment generation with large IT companies. But the agri-sector can do it too. Hundreds of companies can come out of India, not just creating wealth, but creating employment for the bottom of the pyramid. India's growth story has just started. And this sector can not only meet the domestic demands but also fulfil the employment needs of an emerging country. Using technology, both home-grown as well as imported, can give the farmers and the small entrepreneurs a substantial boost to progress and compete aggressively on the world stage. ♦

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Putting India First

ASSOCHAM congratulates Rana Kapoor on being conferred the first ever 'C. Rangarajan Award for Excellence in Banking'



After a sterling professional career in global banking spanning India, Indonesia and Singapore, Rana Kapoor founded YES BANK as a greenfield banking venture in 2004, the first for the country after 10 years. In a 'decade of courage' since then, under his Dynamic, Bold and Visionary leadership YES BANK has catapulted to become the fourth largest private bank in the country. The 'C. Rangarajan Award for Excellence in Banking', instituted by SKOCH and awarded to Rana Kapoor for outstanding contribution to the Banking sector, salutes extraordinary business leaders and their work in the post-economic liberalisation reform era in India.



Rana Kapoor thanked M. Venkaiah Naidu and commended that under his leadership in Urban Development, India will witness high and equitable growth. Also present on the occasion were Ashok Chawla, Chairman, Competition Commission of India and Hemant Contractor, Chairman, PFRDA.



Rana Kapoor being conferred the 'C. Rangarajan Award for Excellence in Banking' by M. Venkaiah Naidu, Hon'ble Union Minister, Planning, Development, Housing & Urban Poverty Alleviation, Parliamentary Affairs in the presence of Sameer Kochhar, Chairman, SKOCH Group at the 38th SKOCH Summit in New Delhi held on Friday, November 21, 2014.



Rana Kapoor
President
ASSOCHAM

It is truly humbling for me to receive the first 'C. Rangarajan Award for Excellence in Banking' instituted by SKOCH at the 38th SKOCH Summit on 'Resurgent India, Competitive India'. Dr. Rangarajan has been a great inspiration to me as well as the entire banking industry. Today, YES BANK is in its most stimulating phase, an inflection point in its life cycle. I believe, the highly successful response to our recent USD 500 MN QIP capital raising – oversubscribed by 5 times, is testament to the continued demonstration of our Bank's robust financial performance across economic cycles. As a barometer for the new Indian economy, YES BANK is committed to partner with ASSOCHAM to actualize India's socio-economic development and competitiveness through action-oriented public advocacy and thought leadership.



BT ANNIVERSARY **2015**



By
**Valerie R.
Wagoner**

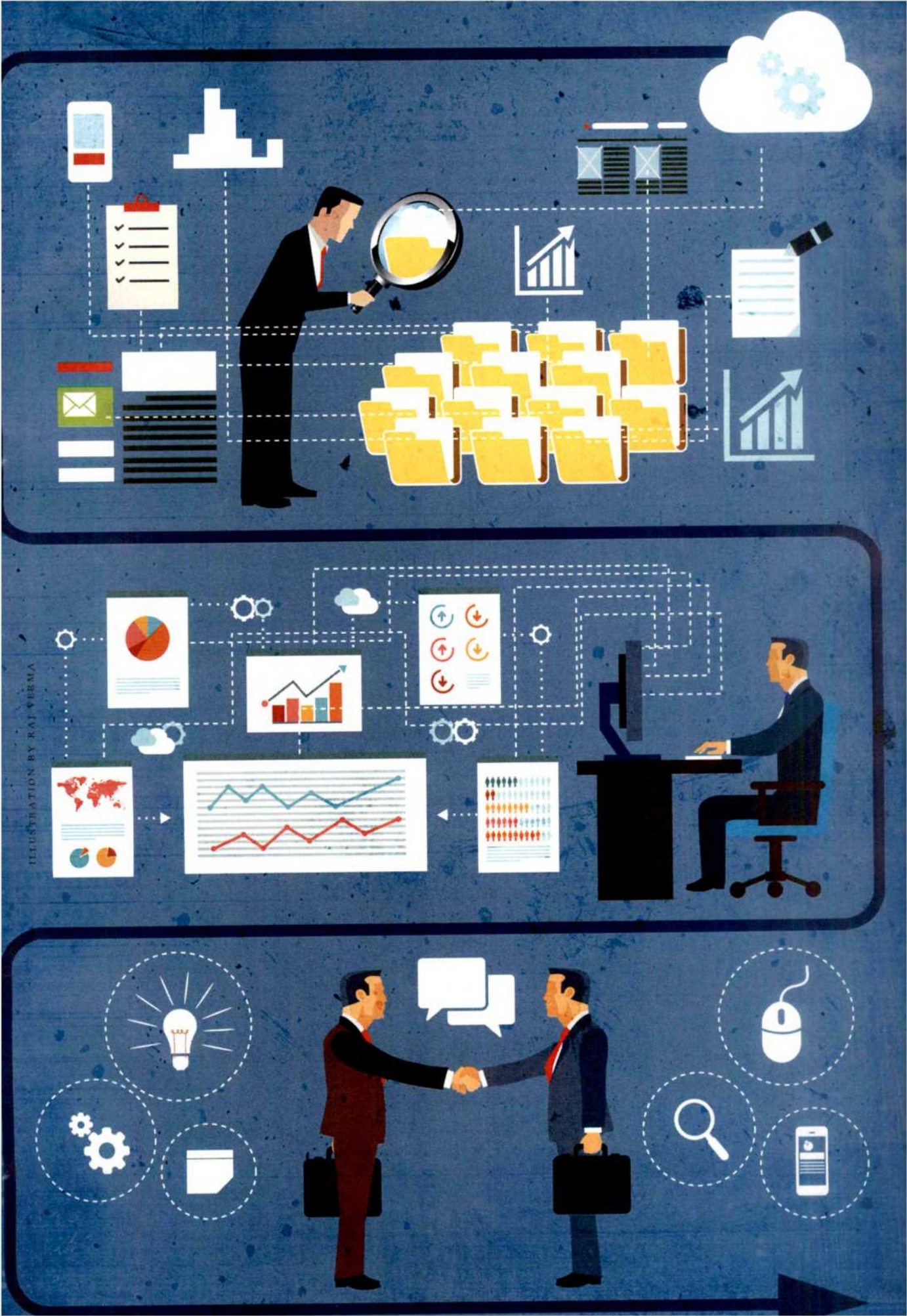
ABOUT:
Valerie R. Wagoner is Co-founder and CEO of ZipDial, a Bangalore company that runs a missed call platform connecting advertisers with potential customers. Wagoner and her co-founders are credited with building a fast-growing "free economy" business in a tremendously value-conscious market like India, but they also argue for the need to evolve

START-UPS

Entrepreneurs must think beyond high-volume, low-margin models to succeed in consumer businesses

THE ROAD AHEAD IN THE FREE ECONOMY

The truism that India's growing domestic market is a high-volume, low-margin opportunity has a negative side. For many entrepreneurs, the country's growing mass market is a distraction from the real opportunity the market presents and weakens many entrepreneurs competitive advantage outside its borders. The country's innumerable talented entrepreneurs need to set their visions beyond high-volume, low-margin models.



Consumer businesses will win in India and internationally by embracing these essential strategic pillars:

- The most important asset is not the people, it's data
- Have courage to price at a premium, then invest in research and development
- Build trust ahead of regulations

Data, Not People

India's massive population has been utilised as an asset for historical business success. The massive talent pools were the foundation for the IT services boom. The voluminous middle class is a ripe consumption market for many industries. However, to succeed in the future, businesses need to think beyond just the number of people as an asset. Most impor-

other entity, private or public, with such data assets in India.

The behaviours and profiles of India's mass of consumers are unique in ways that local entrepreneurs are primed to understand. Local innovators also have a head start on understanding the operational models to acquire and build data and intelligence on this mass of consumers. We entrepreneurs in India need to redefine the opportunity from being about the large market to being about the data and intelligence on the large market, and then embrace our unique position to win in this market.

Price at a Premium, Then Invest in R&D

The beauty of a data and intelligence

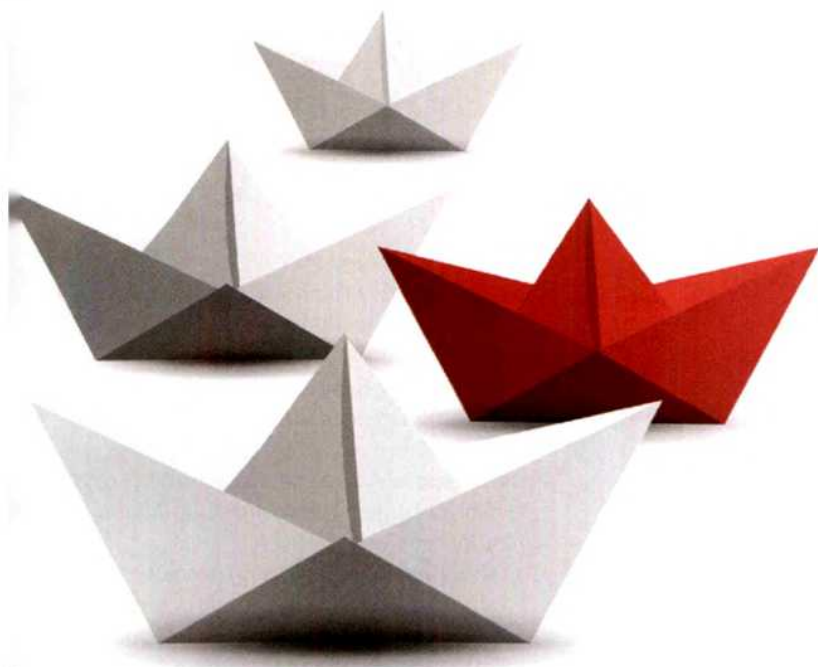
The behaviours and profiles of India's mass of consumers are unique in ways that local entrepreneurs are primed to understand. Local innovators have a head start on understanding the operational models to acquire and build data and intelligence on this mass of consumers

tant is the data and intelligence about these people.

Entrepreneurs need to think beyond the one truism of "high-volume" and marry themselves to another – "Big Data". Uber is not worth \$40 billion because it is a successful ride-sharing business, but because Uber owns the invaluable data on when and where its million users are going every day. To use an Indian example, the 30-month-old Housing.com is not valued at \$250 million just because its product and user experience are far superior to incumbent real estate portals like 99acres and MagicBricks. Housing.com is valued for its incredible data assets. The company has verified and unique data on every single property, and has invested heavily into its fundamental big data technology and data scientist teams. There is not a single

strategy is that it is more valuable, both to customers who will pay at a premium. This then allows for further R&D investment and a virtuous cycle of value creation and extraction of value from the market. This is an essential strategy to fuel the business before being able to demonstrate the data assets to investors who, like for Uber or Housing.com, may invest at a premium.

Too many entrepreneurs miss this opportunity and instead are trapped by the truism of "high-volume, low-margin". My company, ZipDial, regularly faces difficult sales conversations due to copycat competitors, who have significantly undercut on price. All our unique, patent-pending solutions remain at their higher premium price points. While pricing negotiations take longer, customer



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THERE ARE ALMOST ZERO SHORT-TERM INCENTIVES TO BUILD FOR DATA PROTECTION AND TRUST IN INDIA and other emerging markets today. Regulators don't require it, and most consumers do not demand it

retention remains extremely high, and ZipDial has never lost a customer to a copycat who didn't shortly return to ZipDial. Customers recognise the power of the technology assets we have built around the data on our nearly 60 million users in India and how that can make their marketing more effective. Commodity, low-margin copycats cannot compete.

More entrepreneurs need the courage to price at a premium. Even though the start-up funding market is maturing quickly, it still lags behind other markets. Funding R&D is essential for long-term success, and more innovators in India need to embrace the strategy of using premium pricing and higher gross margins to fund R&D and future innovation. This will enable consumer businesses to stay ahead of competitors in the market, in India and abroad.

Build Trust Ahead of Regulations

Building business models based on consumer data can only be done well if that data is protected. Regulations around data protection and consumer privacy in India lag way behind the global standards in Europe and other regions. In other words, it is extremely easy to get away with abusing consumer data in India, both because of nascent regulations and difficulties in enforcing these regulations.

Self-regulation is essential for success, both because that is the only way to build consumer trust and consumer loyalty over the long-term, and the only way to play on the global stage. For example, ZipDial

has held this vision from day one. While the much-needed restrictions on SMS spam in early 2011, instituted by the Telecom Regulatory Authority of India, led to a sudden decrease in revenues and even the shutting down of a number of businesses in the mobile marketing space, there was no change to ZipDial's model which protected consumers even before regulations required it.

Over time ZipDial has turned down substantial short-term revenue opportunities to monetise the rich consumer data we have on our nearly 60 million users. But from early on we committed to building a global company based on global data protection standards. This is why we now work with marquee customers such as Unilever and Procter & Gamble in five markets, with more launching soon. Indian entrepreneurs must operate according to global standards for data privacy protection if we are to compete internationally and export our unique and innovative models to other markets.

There are almost zero short-term incentives to build for data protection and trust in India and other emerging markets today. Regulators don't require it, and most consumers do not demand it. I am honored to be one of two members representing Asia on the World Economic Forum council for the Future of Consumer Industries, and I regularly debate with my North American and European counterparts that concerns about trust are a luxury for consumers in emerging markets who otherwise do not have access to goods and services. However, I strongly believe that it is essential for Indian entrepreneurs to build today for future model.

The winning approaches to entrepreneurship in India over the coming decade are to:

- Invest in data assets
- Build premium value that demands a premium price
- Maintain global standards for data protection and consumer trust

These will continue to propel innovative companies onto the global stage. ♦



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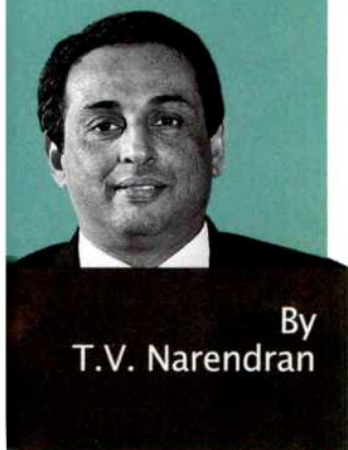
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BT ANNIVERSARY **2015**



By
T.V. Narendran

ABOUT:
T.V. Narendran is the Managing Director of Tata Steel for India and South Asia. A company lifer – he has spent more than 25 years at the steelmaker – Narendran is credited with integrating and turning around NatSteel Holdings, an early Tata Steel overseas acquisition in Singapore

NATURAL RESOURCES

Only a sustainable policy on use of natural resources can unlock India's full potential

TIME TO USHER IN MINING REFORMS

M

ineral resources play a vital role in shaping the modern, civilised industrial world. It is important for countries to plan for sustainable use of natural resources so

that its use is optimised to match the growth trajectory. India is unique because it is arguably the only country in the world rich in natural resources and big in its market potential. Bridging the richness of our resources with the potential of our markets will help in creating jobs and help cut our dependence

ILLUSTRATION BY RAJ VERMA



on imports. The irony of this is accentuated by our current import bill for coal and iron ore despite having some of the largest resources of these minerals in the world.

India needs to accurately map its reserves through efficient exploration techniques. Regional exploration has been undertaken only at eight per cent to 13 per cent of areas in India, far below compared to mining behemoths like Australia. Exploration budgets for key minerals in India need to be on a par with global exploration budgets. Investment in exploration, accurate mapping of reserves, and free availability of this data are essential for effective and transparent management of mineral resources.

To create more jobs and leverage the

als rather than mine it. Here the danger we face currently is expecting that the abnormal profits that many companies made in the commodity business over the last 10 years is here to stay. If one were to look at the commodity prices over the last 100 years or so, one would realise that the spike in the prices over the last 10 years is unlikely to be repeated as there is no other country that will grow as fast as China did over such a short period of time.

The challenge for the industry is to deal with multiple laws and its interpretations and multiple ministries at the Centre and in the states. In addition, the judicial engagement and engagement with the civil society is high. Many in extractive industries have also not been the epitome of responsible behaviour and so are widely mistrusted by the society at large.

So there is a need to build the trust between different sections of the society. There is also a need for simpler and less ambiguous laws with an eye on long-term interests. The government needs to help create a single-window for clearances.

It is imperative that the government recognises the conditions, success factors and strategies to maximise the contribution of the minerals sector to the development of the country. There are a few immediate targets for the government and the industry to spur growth in the sector:

- Crafting a competitive policy regulatory environment for the ease of doing business
- Improving existing governance and management systems
- Opening up opportunities for industry, with a quicker turnaround on investment decisions
- Promoting active linkages between the minerals sector and other sectors
- Enabling the creation of knowledge and competencies for industry and communities to grow and develop further

To reform the mining industry, a unified effort must be made by the government, planners, policy-makers, mining industry, technology and service providers and host communities. Through good governance and responsible leadership, India will be able to address some of the critical issues that plague the mining industry. ♦



availability of raw materials, value-add industries like steel, power, aluminum and so on should get preferential allotment of the key minerals. Given the high cost of capital in India and the need to compete with the best in the world, it is important that the industry at least gets the advantage of having locally available raw materials. The process can be transparent but the companies who are willing to invest or have invested in value addition and downstream industries should get an edge over those who are merchant miners.

Otherwise, everyone in the value chain will be tempted to limit their presence to mining. It is also important to ensure that the cost of owning raw material does not become so prohibitive that it becomes economically viable to import raw materi-



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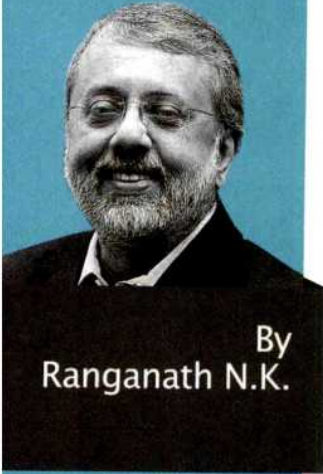
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BT ANNIVERSARY **2015**



By
Ranganath N.K.

ABOUT:
Ranganath N.K. is the Managing Director and CEO for India at Danish pumps maker Grundfos, a company he's been with since 1998. In September 2013, the company's Chennai premises received the Leadership in Energy and Environmental Design (LEED) EB Platinum Certification by the Green Building Certification Institute, making it the only company in India to progress to the platinum rating from gold

SUSTAINABILITY

There is a sound reason for India Inc. to embrace sustainability concepts: profits

GREEN THE BOTTOMLINE

The one issue and the one word that is on the lips of every CEO is sustainability. Does it mean different things to different persons? Or is it just the right buzzword to use? India Inc. too talks about it but sustainability is first a mindset. It is not an easy path to follow at all times, especially in India. It also has to make business sense as without financial sustainability other sustainability efforts can't be funded. This lack of a sustainability mindset affects everyone be it a country, company or community.



ILLUSTRATION BY AJAY THAKURI

Sustainability needs a holistic approach. In India, other than carbon emissions, the two issues that threaten its economic security are water and energy misuse, shortage and constraints. A rapidly-growing population, increased urbanisation and pressure on resources will exacerbate the situation unless India Inc. and the government start looking for sustainable solutions. This gives India Inc. plenty of business opportunities for sustainable solutions that can benefit society and also improve its bottom line. We need to move from just policies on paper, which we have aplenty, to its implementation.

Corporate India is being held accountable for many environmental problems India is facing and is expected to bear the burden of correcting it. Stakeholders are putting more pressure on companies to demonstrate responsibility throughout their value chain. India Inc. can either be proactive and actively find sustainable solutions or wait for a situation where they will be forced to act either by regulation or by mere shortages.

The crippling power crisis in most parts of India has got the government and the industry in a bind. The ramifications are significant:

- Businesses suffer losses with many small-scale businesses on the brink of closure
- Agriculture production suffers due to lack of water as pumps don't deliver water
- Regular water supply, both in rural and urban areas for domestic use, is affected
- The consequential costs on the economy are significant

The country is aiming to expand its power generation capacity by 44 per cent over the next five years but the slow progress and fuel linkage problems demonstrate the scale of the challenge. Energy production in India is projected to

rise by 112 per cent by 2035 but the consumption is expected to rise by 132 per cent, creating a greater demand for solutions that reduce energy consumption. Even then we will be 60 per cent to 65 per cent dependent on thermal power from coal.

The government is taking many steps to improve infrastructure and power reliability, including the development of renewable energy from sunlight and wind. Of the many renewable solutions, embracing solar power to support the current critical scenario appears to be a prudent one. This has made the solar industry a sunrise sector. Corporates too have taken recourse to harnessing solar power in right earnest for their own use.

There is also a great opportunity in the demand-side management of energy utilisation for developing and adopting energy-efficient products and solutions. The largest potential for energy savings is in lighting (38 per cent), agriculture (33 per cent) and industries (27 per cent). According to Asian Development Bank and Bureau of Energy Efficiency, the aggregate investment potential in these sectors for energy savings is around \$9.8 billion, with a total savings potential of 183.5 billion kWh and 148.6 Mt CO₂ equivalent emissions.

SMEs consume about half of total energy consumed in the industrial sector and focusing on energy efficiency here can create at least 25 per cent savings without any substantial investments. The government needs to focus on promoting Perform, Achieve and Trade (PAT) scheme and Energy Service Companies more intensely. Saving power needs less capital than generating power and makes good business sense. Unfortunately, the trading of carbon credits has not worked well in



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the marketplace and this may be due to a lack of consistency in policies and procedures. The creation of an exchange for carbon credits will help a lot in creating a market for energy efficiency. The other issue India faces is lack of compliance to environmental rules and laws. Corporate India has to behave more responsibly and the society must encourage sustainable practices by buying green products and services even if it means paying a small premium. The payback to corporates is generally good when investment decisions are based on life-cycle costs rather than just initial costs. Organisations need to foster responsible and intelligent behaviour at each level and employ energy managers to constantly and consistently drive energy-saving efforts.

With 1.65 billion sq.ft. of green buildings (2013) registered, 267 operating green buildings, India has one of the largest green built-up area in the world. In the next 20 years, around 70 per cent more building space will be added in India. This will automatically create a huge potential for green and environment-friendly buildings leading to huge cost savings. There are various guidelines like Energy Conservation Building Code and certifications like Indian Green Building Council that ensure that built spaces are sustainable and green.

Energy and water have a significant inter-dependant relationship commonly known as the water-energy nexus. Energy is critical to pump water and water is critical to produce energy. Thermal power plants use nearly 88 per cent of

water used in industry. More than 70 per cent of the existing and planned thermal and hydropower capacity is located or are expected to be in water-scarce or water-stressed areas. Considering that the most profligate and inefficient use of water take place in agriculture, a lot of focus is required on this sector. Around 60 per cent of irrigated agriculture in India depends on pumped groundwater. It is said that India's water requirement is expected to double by 2050. Currently a 10-per cent saving in water consumed by agriculture can ensure adequate drinking water for in India.

With 16 per cent of the world's population and only four per cent of the world's water reserves, water shortage can create immense problems for the nation and business. We will be a water-starved nation soon, if nothing is done. Therefore, it is imperative that we in India wake up to the fact that it is critical for us to focus on water conservation.

India Inc. has huge opportunities in the water conservation as we will be forced to reduce, recycle and reuse water. The only thing stopping it now is that people are not charged the true cost of water and when this is done the business case for recycling will be more relevant. As the demand for infrastructure in water increases, opportunities for PPP models in the water sector will open up.

Corporates that are proactively focused on sustainability will do better in future than those that are purely reactive both in terms of their social financial objectives. ♦



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**STATEMENT TO SHAREHOLDERS BY
M.S. RANA
CHAIRMAN AND MANAGING DIRECTOR
DURING 9th AGM HELD ON 11th NOVEMBER 2014**

Ladies and Gentlemen,

On behalf of the Board of Directors and on my behalf, I would like to extend a very warm welcome to all of you to the 9th Annual General Meeting of the Security Printing and Minting Corporation of India Limited (SPMCIL). The notice of AGM, Directors Report and Audited Accounts for the year ended 31st March, 2014 are already with you and with your permission, I take them as read.

Ever Highest Production of Circulating Coins of 7650 mpcs

OPERATIONAL PERFORMANCE

Your Company has achieved all the targets in the production of Bank Notes, Coins, Security Products (Passports, NJSPs, Postal Products and other Security Products) and production of the Raw Materials (Security Inks and Security Paper) during the year 2013-14. While achieving the ever highest targets SPMCIL has also increased productivity per employee considerably as per the details given below:

Your Company has produced 8018 million pieces of the Bank Notes in 2013-14 against the target of 7360 million pieces. This is 8.05% higher than the production of 7421 million pieces of the Bank Notes during last year. Production of the Bank Notes per employee has increased to 2.01 million pieces as against 1.88 million pieces achieved during last year. These are the highest ever figures achieved in the history of the Bank Note Presses.

Your Company has produced 7650 million pieces of the Circulating Coins during the year 2013-14 as against the target of 7015 million pieces. This is 14.04% higher than the production of 6708 million pieces achieved during last year. Production of Coins per employee has increased to 2.26 million pieces in 2013-14 as against 1.88 million pieces achieved during last year. These are the highest ever figures achieved in the history of Mints.

Your Company has produced 604 Metric Tonnes (MT) of the Inks in 2013-14 from the Ink Factory Dewas as against 484 MT of Inks produced during 2012-13. This is 24.79% higher than the previous year production. Now, SPMCIL Presses have become self-sufficient in numbering, offsets and intaglio Inks. The Security Paper Mill, Hoshangabad has produced 3240 MT of Security

Ever Highest Production of Bank Notes of 8018 mpcs

Paper in 2013-14 as against 2925 MT produced during 2012-13. This is the fourth year in succession that the Paper Mill has met the target despite the paper machinery being about 45 years old.

FINANCIAL PERFORMANCE

The Sales turnover of your Company has increased to ₹3797.61 crores in 2013-14 from ₹3625.17 crores in 2012-13 registering a growth of 4.75%

Ever Highest Production of Security Paper of 3240 MT

over the previous year. The Sales per employee during 2013-14 has increased by 7.72% to ₹30.98 lacs from ₹28.76 lacs during the year 2012-13 primarily due to increase in the production during 2013-14. Despite the increase in overall production and productivity per employee, the Net Profit of your Company during the year 2013-14 has decreased as compared to previous year 2012-13. This is mainly because Revenue from Operations during 2013-14 has been adjusted by making provision for rate difference of Coins and Postal items, increase in cost of paper due to forex variation, increase in salary and wages, whereas, adhoc selling prices of Coins and Bank Notes have remained unchanged. However, the MoU rates of Coins and Bank Notes are provisional and final rates for Coins and Bank Notes are being finalised by the Ministry.

MoU PERFORMANCE

Your Company has been granted 'Excellent' rating by the Department of Public Enterprises (DPE) for its MoU evaluation for 2012-13. This is the fourth year in succession your Company has been adjudged Excellent in its MoU evaluation. The MoU score of 1.035 is the best ever score since incorporation of SPMCIL. For the MoU year 2012-13 your Company was adjudged the top performer by DPE from the Syndicate group consisting of 24 CPSEs. For the year 2013-14, the self evaluation report of MoU duly approved by Board and Ministry has been sent to DPE. As per self-evaluation report your Company is poised for 'Excellent' rating for the fifth time in succession.

DIVIDEND

The Directors have recommended final dividend @ 20%

of post tax profits of the Company for the year 2013-14 aggregating to ₹42.93 crore. This is the fourth year in succession your Company has paid/proposed dividend since its inception.

AWARDS

Your Company has been awarded Performance Excellence Award-2013 in Golden Enterprise category by Indian Institution of Industrial Engineering (IIIE), Mumbai for its financial and operational performance. Bank Note Press, Dewas has been awarded the National Safety Award during September, 2014 by Hon'ble Union Minister of Labour & Employment both in the Category of Lowest Average Frequency Rate and Accident Free Year. Bank Note Press, Dewas is continuously getting this award since 1996 as a winner/runner-up based on Lowest Average Frequency Rate or Accident Free Year. India Government Mint, Mumbai was awarded the Business Leadership Award-2013 for Manufacturing Excellence for Coins and Medals in 2013.

MODERNISATION / INDIGENISATION

Continuing its momentum of modernisation and indigenisation, your Company has taken up various capital works as given below:

One Computer to offset Plate making (CToP) machine has been installed at Currency Note Press, Nashik and another CToP machine is in progress at

Bank Note Press, Dewas for Processing Systems (BP) each at CNP, Nashik and Finishing Machines for Bank Note Press installed at Currency Note Press. The phase-II modernisation has been taken up. At present, in production of the

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CORPORATE SOCIAL SUSTAINABLE DEVELOPMENT
Your Company has spent

Ever Highest of ₹

CSR & SD projects as against SPMCIL has taken up

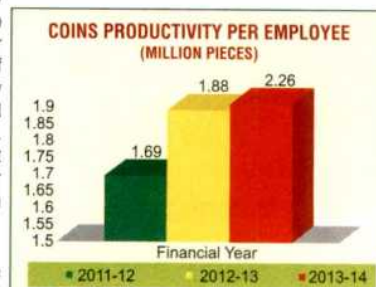
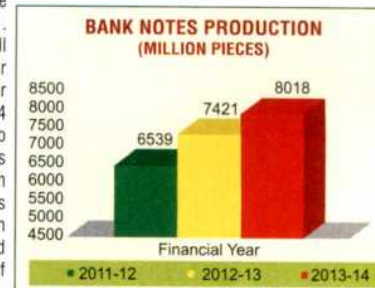
education, family sanitation, rural skill enhancement Company has given of Uttarakhand, towards flood projects men process of bank and evaluate Your Company: Harvesting in Ban trees near Narma Hoshangabad (A Electrostatic Oil Filter part of its Sust

Units of your Company at Hoshangabad is implementing treated effluent water to

Reserves or

STRENGTHENING
Due to systematic institution of strengthening of the visible discernible improvement guidelines relating Training of officials and visit to enhance their capacity CVC guidelines. The net result initiatives has been reduced increased follow up of system bringing in more transparency efficiency in SPMCIL approval of the CVC, Mr appointed in SPMCIL.

CUSTOMER SATISFACTION
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ENCHMARKS

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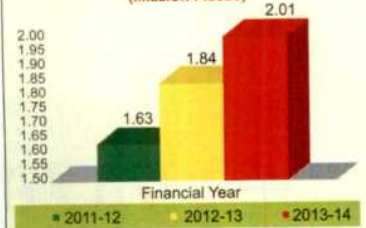
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**BANK NOTES PRODUCTIVITY PER EMPLOYEE
(MILLION PIECES)**



Nashik in August, 2014.

CORPORATE GOVERNANCE

All the information as per DPE guidelines on Corporate Governance were placed before the Board. Your Company has duly constituted Audit Committee, Remuneration Committee and CSR & SD Committee. Being a security sensitive organisation Government has constituted SPMCIL Board consisting of four functional Directors, three Government nominees and three Customer nominees from Ministry of External Affairs, RBI and Department of Posts who have been treated as Independent Directors. The compliance certificate has been obtained from the practicing Company Secretary regarding compliance of the guidelines on Corporate Governance by SPMCIL for the year 2013-14, which is annexed to the Directors Report. For fifth year in succession, CAG has issued NIL comments after review of the Annual Accounts of the Company.

R&D

Your Company has taken up applied R&D project in the field of security paper, security printing, Bank Note printing & Coin metallurgy. The

**Excellent MoU Ratings from 2009-10 to 2012-13
and poised for Excellent Rating for 2013-14**

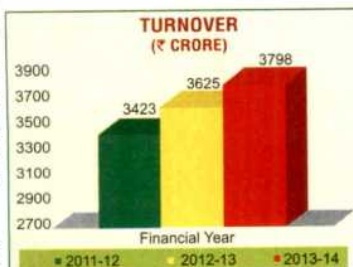
Company is setting up R&D centres across all production verticals. It will help the Company to bring more indigenisation in its operations and efficiency in the production processes.

ERP BASED INTEGRATED INFORMATION SYSTEM

The SAP-ERP has been implemented across all Units of SPMCIL and is in the stabilization phase. A fully functional Tier-3, ISO/IEC 27001:2005 certified Data Center (DC) is operating at IGM, Noida. SPMCIL has also set up a Disaster Recovery Center (DRC) at IGM, Hyderabad to ensure complete data safety and security. The implementation of SAP-ERP will bring greater transparency and synergy in the operations of the Company and ensure better services to its customers.

HUMAN RESOURCE

The overall industrial relations scenario during the year was cordial and peaceful. Training of the workmen, supervisors & executives has been taken as a thrust area. Promotion Policy for the executives and medical policy were implemented during the year. Training on Risk Management, new/ advanced technology, SAP, preventive maintenance were carried out as part of capacity building. Leadership Development Programme was



Company has conducted Customer Satisfaction Survey through an independent consultant for the year. As per the independent report, Customer Satisfaction Index in 'Excellent' category has been achieved. To imbibe the findings of the Customer Satisfaction Survey and feed back received and measures to be taken for further improving the Customer Satisfaction, a workshop was held at India Security Press,

production of the Coins during the last three years of about 6.8 billion pieces. Your Company had earlier got the study done to establish the feasibility of increasing capacity in existing Mints by utilising the existing land and buildings thereby economise on the cost and shorten the project implementation time. The project estimates have been firmed up and are under the consideration of SPMCIL Board for decision.

Similarly during September, 2014, RBI has given the indents of Bank Notes

**NIL comments from C&AG for 2013-14 for
the fifth year in succession**

for 2014-15 to 2018-19 which are about 40% to 50% higher. It will require investments in replacement of the old Printing Lines and creation of additional capacity both in Bank Note Press, Dewas and Currency Note Press, Nashik. Board has already sanctioned two Printing Lines and for creation of additional capacity the investment proposal is being brought before the Board for approval.

In the case of travel documents MEA has also given indents in September, 2014 for the next five years with indents increase to more than three times of the last year. SPMCIL has capacity to print about 1.50 crore passports/year. SPMCIL will firm up the expansion proposal for additional capacity in the coming months. Similarly, Postal department has also given their indent forecasts for the next five years in September 2014, which are quite on the higher side of the last year indents. SPMCIL is firming up investments for postal machinery also.

There has been a substantial increase in the indents for the Non-Judicial Stamp Papers (NJSP) during the last three years and this trend is continuing despite few of the States shifting to the e-stamping. SPMCIL is geared

to meet this enhanced NJSP indent from the States.

The proposal for Capital Restructuring of SPMCIL has been taken up with the Administrative Ministry. The approval of Competent Authority to the Capital Restructuring is awaited.

ACKNOWLEDGEMENTS

I would like to acknowledge with deep sense of appreciation the cooperation received from the Government of India, particularly from the Ministry of Finance, Reserve Bank of India, Ministry of External Affairs, Ministry of Home Affairs, Department of Posts, Department of Public Enterprises, Ministry of Labour, Department of Pension and Family Welfare and various State Governments. I am also thankful to my colleague Directors for their valuable inputs, continued support and guidance. I

**Excellent grading for Corporate Governance for
2013-14 for the fourth year in succession**

would also like to acknowledge with thanks the constructive suggestions received from Comptroller & Auditor General of India and the Statutory Auditors. Lastly, I would also like to place on record the sincere appreciation of the devotion and commitment of all executives and employees of the Company.

Jai Hind.

(M.S. Rana)

Place: New Delhi
Date: 11th November, 2014 Chairman & Managing Director

Note: Excerpts from the Chairman's Speech at the 9th Annual General Meeting of SPMCIL held on the 11th day of November, 2014 at New Delhi. This does not purport to be a record of the proceedings of the Annual General Meeting.

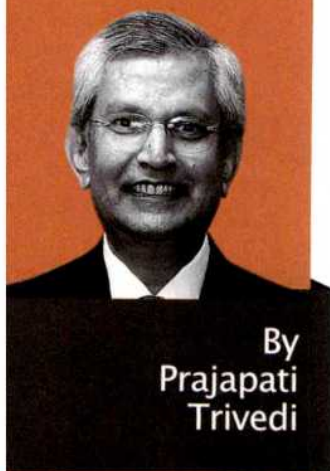


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BT ANNIVERSARY **2015**



By
**Prajapati
Trivedi**

ABOUT: Early in 2009, when the Union government was appointing its first Chief Performance Officer, a secretary-level post, with a remit to manage government performance, it turned to Prajapati Trivedi. A former IIM-Calcutta professor, economic adviser to the government, and a senior economist at the World Bank, Trivedi led development of a Results Framework Management System to evaluate government workers

POLICY INITIATIVES

The real competitive advantage of a nation lies in its ability to execute programmes properly

ADMINISTRATIVE REFORMS: THE ELEPHANT IN THE ROOM

I am convinced that development is all about the ability of a country to implement agreed policies, programmes and projects. The government's ability to implement is the most powerful predictor of future development. Experts agree that in the long run, the race among nations will be won or lost not on the basis of comparative advantage arising from resource endowment, but by the competitive advantage created by effective governments. Thus creating administrative machinery that delivers what it promises remains our main development challenge.

Management experts tell us that success in any institution depends on doing the 'right thing' and



also 'doing it right.' Unfortunately, development experts spend all their energies debating what the 'right things to do' are. They do not seem to worry enough about how to 'do them right.' There seems to be a presumption that good policies, programmes and projects will self-implement.

Nothing exemplifies this better than the non-implementation of a recommendation of three successive Central Pay Commissions: the performance-related incentive scheme for central government employees. The Fourth Central Pay Commission had recommended variable increments to reward better performance

crises and it became clear that administrative reform was the last thing on his mind. With the change in government in 2014, the implementation of the Second ARC appears to have been relegated even deeper into the abyss.

Arguably, the lowest point in this journey of disappointment with administrative reforms was reached when a group of around 80 eminent civil servants led by the former cabinet secretary, T.S.R. Subramanian, filed a petition in the Supreme Court in 2011 against the government for not implementing administrative reforms. The Supreme Court accepted two crucial suggestions of the

HOW THEY FARED Performance scores based on RFDs* of select ministries and departments for 2011/12

							
Dept of Agriculture and Cooperation	Dept of Consumer Affairs	Dept of AIDS Control	Ministry of Corporate Affairs	Dept of Electronics & Information Technology	Ministry of Housing and Urban Poverty Alleviation	Ministry of Minority Affairs	Dept of Telecommunication
97.0	77.57	87.72	90.80	82.99	92.75	67.34	63.69

*Results Framework Document

Source: Annual reports of departments

as far back as 1987. The Fifth and Sixth Pay Commissions reiterated this recommendation in 1997 and 2008, respectively. All three times, the recommendation was duly accepted by the government. Yet this was never implemented.

A similar picture emerges in the case of other administrative reforms. Since Independence, a large number of reports have been prepared by all sorts of expert committees and commissions. In 2005, then-prime minister Manmohan Singh set up the Second Administrative Reforms Commission (ARC), headed by Veerappa Moily. The panel submitted its 15th Report on April 2009, and continued to work well into Singh's second term. Even though Singh returned with a larger majority, he was soon distracted by various

petitioners – a ban on oral instructions from political bosses and superiors and fixed tenure in postings. But even this judgment has not been implemented.

Alas, India seems to be caught in a vicious cycle. Because the government's capacity for implementation is weak, it is not able to implement administrative reforms to improve its capacity to implement policies and programmes, including administrative reforms.

But before we examine options for breaking out of this vicious cycle, let us look at some success stories. There are indeed lessons to be learnt from both successes and failures in this area.

Chapter 11 of the 10th Report of the Second Administrative Reforms Commission says: "Performance agree-

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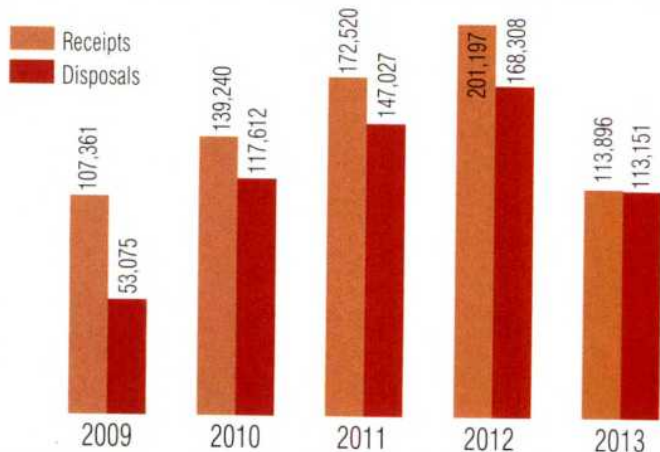


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IMPACT OF RFDs

RFDs have helped bridge the gap between grievances received and disposed



ment is the most common accountability mechanism in most countries that have reformed their public administration systems." In June 2009, the then president of India, Pratibha Patil, announced in her speech in Parliament that the government would "establish mechanisms for performance monitoring and performance evaluation in government on a regular basis." Sure enough within 100 days, the prime minister announced the adoption of a Performance Monitoring and Evaluation System (PMES) for government departments.

At the heart of PMES is a performance agreement, referred to as a Results-Framework Document (RFD), between a minister and the secretary of a government department. The RFD is an agreement about the vision, mission objectives and priorities of the department, corresponding actions required to achieve them and success indicators and targets to measure the progress in achieving them. The RFD is finalised at the beginning of the year and the department's performance is measured at the end of the year. These results are included in the departments' annual reports and tabled before Parliament each year (See *How They Fared*). RFD scores have created benchmark competition among departments

and a Ph.D. thesis at the Indian Institute of Technology, Delhi, has found this reform to have had an overall beneficial effect. Today, some 80 departments of the central government and 800

Responsibility Centres under them are covered by the RFD. In addition, 17 states, their governments cutting across the political spectrum, are at various stages of adopting PMES.

The resultant accountability and benchmark competition has also had a dramatic impact on many administrative reforms that had been neglected for years. For example, in a meeting with the then prime minister in 1997, all chief ministers agreed to achieve a citizen-centric government by adopting the policy of 'Sevottam' – a Hindi word meaning 'excellence in service'. It had three principal components: (a) a Citizens'/Clients' Charter outlining services and transactions of a government department and corresponding service standards to which the department is committed; (b) a Grievance Redress Mechanism to record, track and dispose of grievances; and (c) the certification of a management system of the department to deliver results.

Till 2010, there was virtually no progress in implementing these three components of *Sevottam*. In response, the then cabinet secretary decided to include these three components in the RFDs of all departments with measurable and verifiable key performance indicators. Data show that there has been significant progress on all three fronts since then. For example, the disposal rate of grievance redress went up from 50 per cent in 2010 to almost 100 per cent in 2013 (See *Impact of RFDs*). Similarly, the implementation of other reforms brought under the accountability regime of the RFD improved dramatically. After a Standing Committee of Parliament made some scathing remarks about the nonchalant attitude of departments towards observations of the Comptroller and Auditor General (paras), the cabinet secretary decided to include this too as a performance indicator in RFDs. Data show a dramatic reduction in the concerned paras. Truly,



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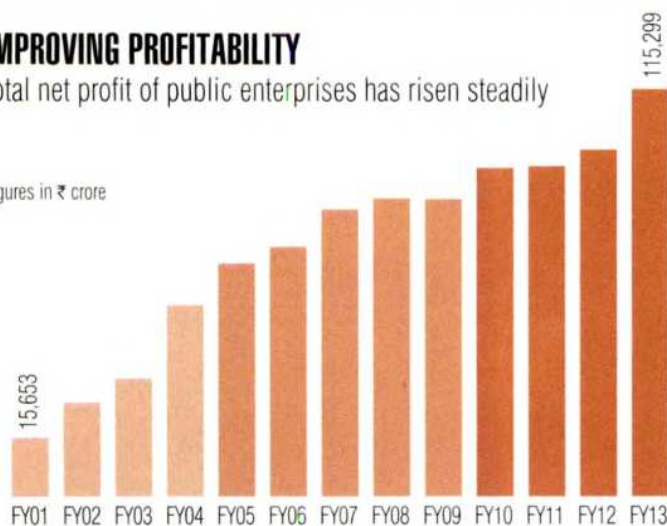


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IMPROVING PROFITABILITY

Total net profit of public enterprises has risen steadily

Figures in ₹ crore



what gets measured gets done.

Memorandums of Understanding (MoUs) represent another success story. Like the RFD, the MoU is also a performance agreement between public enterprise CEOs and the secretary of the administrative ministry. It was recommended by the Arjun Sengupta Committee in 1984 and was formally made part of the Industrial Policy in 1991. It had two main elements. One, 50 per cent of weight in performance evaluation of public sector enterprises should be given to financial performance. Second, the bonuses of public enterprise staff, including that of CEOs, should be tied to profitability. This lit the fire in the belly of public enterprise managers and the improvement in performance of the public sector as a whole, barring select exceptions, has been phenomenal (see *Improving Profitability*).

The following are the lessons to be learnt:

First, implementation of administrative reforms requires not only political will but also bureaucratic skill. Even when there is overwhelming political will, often the bureaucracy fails to deliver the right design and implementation strategy. Today's administrative reforms have become complex and require specialised knowledge.

Second, it is difficult for patients to

heal themselves. Thus, politicians must make use of vast talent pool available outside government. Ideally, they should utilise the talents and experiences of civil servants who have taken leave of absence for long periods to serve in international organisations and specialised in a particular area of reform. They are likely to be much more effective than either rank insiders or rank outsiders. Fortunately, the available supply is large enough to satisfy any foreseeable demand.

Third, international experience with reforms suggests that the most difficult reforms have to be implemented at the beginning of the term of any government. Given that the second ARC had made close to 1,200 recommendations and 1,005 have been already accepted after rigorous scrutiny, one would have expected the new government to hit the ground running rather than reopen closed debates.

Fourth, administrative reforms should be implemented as part of a larger framework for performance management. Implementing administrative reforms should have consequences – efforts in this area should be rewarded and failure to implement should be punished. No one likes change and the bureaucracy is no different. I discovered that no one in the government was accountable for the implementation of administrative reforms. Ironically, this was particularly true of the Department of Administrative Reforms, long considered a punishment posting.

Fifth, the government must define what 'successful' implementation of administrative reforms means. We must know when to declare victory or defeat. In the absence of such a yardstick, I have seen departments claiming to have implemented some administrative reform merely on the basis of a memo issued asking others to take appropriate steps.

Finally, administrative reforms have to be undertaken in mission mode. We must have evangelising missionaries leading them. Successful reforms have been implemented by people who are passionate about them and believe in them. ♦

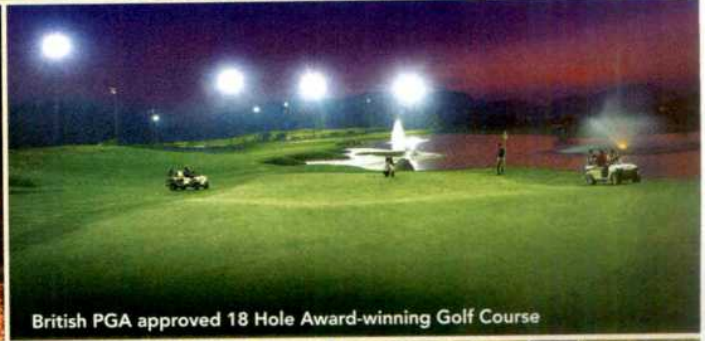
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BT ANNIVERSARY **2015**



By
**Pankaj Ghemawat
& Steven A. Altman**

ABOUT: Pankaj Ghemawat and Steven A. Altman are specialists on globalisation. Ghemawat, author of *World 3.0*, is the Anselmo Rubiralta Professor of Global Strategy at IESE Business School and Global Professor of Management and Strategy at the Stern School of Business at New York University. Altman is a Senior Research Scholar at Stern and Executive Director of its Center for the Globalization of Education and Management, where Ghemawat is a director

GLOBALISATION

Few countries have more to gain from a greater integration with the rest of the world. Indeed, many fears about it within India seem exaggerated

INDIA'S GLOBALISATION IMPERATIVE

A

majority of Indians believe that growing trade ties and business links with other countries are good for India, and Prime Minister Narendra Modi has sought to boost them through diplomatic channels.

Indeed, several programmes, such as the "Make in India" initiative, are intended to have this impact. But Indians and the Indian government are not unequivocally pro-globalisation. Nearly four out of five Indians believe that "our way of life needs to be protected against foreign influence," according to Washington-based think tank Pew Research Center's



Some alarm is indeed called for because even after accounting for characteristics such as India's large size, ITS international flows are still smaller than statistical models predict they should be

Global Attitudes Project. And, remember, India nearly blocked the World Trade Organization's Bali Package.

While globalisation evokes strong opinions, facts are often in short supply. It would be a folly to advocate more (or less) globalisation without a clear understanding of how globalised India really is today. We answer that question here based on the results of our DHL Global Connectedness Index 2014, which measures the globalisation levels of 140 countries. It factors in hard data related to trade, capital, information, and people flows.

Not Very International

The simplest way to assess a country's globalisation is to look at activities that could take place either domestically or internationally and see what proportion are international. On this type of measure, which we call depth, India ranks as one of the world's least globalised countries, only 126th out of 140.

Before readers become too alarmed, we should mention upfront that large countries naturally tend to be relatively less international, with more of their activities taking place in their expansive domestic markets. However, some alarm is indeed called for because even after accounting for characteristics such as India's large size, its international flows are still smaller than statistical (regression) models predict they should be. And while those who favour less globalisation might find that encouraging, we do not

because the depth of countries' international interactions correlates with their growth rates and other measures of prosperity.

To elaborate just how small India's international interactions are, start with a sampling of indicators of the globalisation of Indian business. The participation of foreign multinationals in the Indian economy via foreign direct investment (FDI) has been a matter of great controversy, but only five per cent of India's fixed investment (gross fixed capital formation) was financed by FDI over the past three years, and only 15 per cent of countries rank lower on that metric. Prime Minister Modi expects exports to boost growth but merchandise exports accounted for only 17 per cent of GDP in 2013, ranking India 111th out of 140 countries. The map that accompanies this article drives this point home by sizing India based on its GDP minus its exports and all other countries in proportion to India's merchandise exports to them. India, unsurprisingly, does do better on services exports. Valued at eight per cent of GDP, India's services exports depth ranks 64th out of 140 countries.

Shifting from business to culture, given Indians' fears about foreign cultural influences, it is striking that no other country ranks lower on the depth of its international people flows. Immigrants comprise less than 0.5 per cent of the population (as compared to three per cent globally), and only about one per cent of people born in India live abroad. Averaging across the whole population, Indians travel abroad once every 83 years, compared to a global average of once every six years and once every 13 across emerging economies. Only four countries receive fewer tourists per capita. Furthermore, India ranks in the bottom 10 per cent of countries on both the proportion of its university-level students enrolled abroad (less than one per cent) and the share of foreign students at Indian universities (about 0.1 per cent). Worldwide, roughly two per cent of all university students are enrolled outside of their home countries.



**PETRONET
LNG
LIMITED**

MAKING INDIA A GAS-BASED ECONOMY

The long-cherished Kochi pipeline was turning out to be an albatross around Petronet LNG's growth story. Even some of Asia's leading equity analysts downgraded Petronet LNG for lack of approvals for its Kochi pipeline and suspected break-even not before FY18. But the never-say-die Petronet LNG team is making all out efforts to find ways to enhance utilisation of Kochi Terminal pending construction of pipelines.

Petronet LNG pins a great hope on the new dispensation at the Centre and says, "The Petroleum & Natural Gas Ministry has indicated to the state government that our Kochi connectivity is too important a project and, therefore, needs to be monitored closely. The state government has constituted a new committee of senior officials to overview and facilitate the pipeline. All these efforts show that there is a concern and there is an urgency now coming up to put this project on fast track."

Undeterred at Petronet LNG's newly commissioned Kochi terminal utilising only 2% of its 5 mmtpa capacity, the Country's biggest gas importer came out with an innovative business model which will not only help Petronet LNG but also help build the country's energy security. It says, "By March 2015 onwards, there should be a significant improvement. Meanwhile, we have started working on an alternate initiative of having some reload and storage facilities being given to some international players who had shown lot of interest so that our terminal gets utilised for higher capacity."

MD&CEO, Petronet LNG, Dr. A.K. Balyan is leading a team of highly motivated and dedicated officials across the company's plants at Dahej and Kochi who are ever working at innovative ideas to reduce costs and enhance profitability. "We have offered facilities in Kochi under a different business model to an

international company, which will just have to pay for the storage. Since Kochi port is in SEZ area which gives leverage on taxes, it makes this business lucrative for us as well as for the partners," says Dr. Balyan.

As per Petroleum & Natural Gas Ministry, the country's demand for gas was 242.66 mmscmd (million metric standard cubic metres per day) in 2012-13 and is projected to grow to 378.06 mmscmd by 2016-17. The domestic gas supply remained stagnant at around 110 mmscmd in the last four years. Given this, the pie of imported gas is only expected to grow. Various analysts and research agencies expect India's gas imports to touch 143 mmscmd by the end of 2016-17. India imported 49 mmscmd gas in 2013-14. The imported gas accounts for 25% in the gas pool account, and Petronet LNG's market share in this is more than 66%. The country's import capacity is 22.5 mmtpa (million metric tonnes per annum), out of which Petronet LNG has 15 mmtpa (Petronet LNG has a 10 mmtpa import, storage and regasification unit at Dahej in Gujarat and another 5 mmtpa at Kochi in Kerala). Interestingly, Petronet LNG is working on expanding the Dahej capacity to 15 mmtpa by 2016 and may further expand it to 17.50 mmtpa by 2019, making it Asia's largest import facility.

Now that Prime Minister Narendra Modi has emphasised that he foresees India as a gas-based economy but the country's gas production is moving at a snail's pace, the role of Petronet LNG becomes all the more vital in days to come. The Petronet LNG chief Dr Balyan says, "There is demand for more gas and I see it only growing in the days to come," adding, "The gas is available in plenty in international markets...we just have to figure out good business models to leverage the current scenario."

Adding another feather to Petronet LNG's cap, its Dahej LNG Terminal in Gujarat early this month received a Q-Max LNG Vessel, the largest LNG carrier in its class having a capacity of about 2,61,000 cubic metres, from Ras-Laffan, Qatar. It is the country's biggest shipment of liquefied natural gas (LNG) as it looks to diversify supplies and economise parcel size to meet its growing energy demands.

Dahej Terminal expansion to 15 MMTPA in progress





AUGURS WELL FOR INDIA'S LNG FUTURE...

The lack of pipeline connectivity has been the main issue with the Kochi-Mangalore link. "The Kerala government has begun renewed efforts to start the Kochi-Mangalore pipeline soon and the company is confident of significant progress by the end of this financial year," says Petronet LNG. Petronet LNG's Kochi pipeline has two segments—one is Kochi-Mangalore and other is Kochi-Bangalore via Tamil Nadu.

"As regards the Kochi-Bangalore segment, the Tamil Nadu government had raised some issues and the matter is sub-judice. We hope this matter would be settled sooner than we all expect and that the pipeline work would start very soon. On the Kochi-Mangalore pipeline, "The Kerala government is making all out efforts to see that the pipeline is facilitated. So, we are hopeful," says Dr Balyan.

On good trading margins this quarter, Dr Balyan says, "The Kochi pipeline slowdown has indeed been disappointing, but our Dahej terminal in Gujarat has not only operated at nearly 110% capacity in 1st half of FY-15 but is also expected to operate at similar capacity levels going forward. As of now the volumes seem pretty good. We have done more numbers of spot cargos compared to last quarter, so I can only say that similar trend is likely to continue."

Being the pioneer and leading LNG Player in India, Petronet LNG has so far sourced approximate 1250+ cargos at its Dahej LNG Terminal since its inception about 10 years ago.

Petronet LNG Limited had set up India's first LNG receiving, storage and re-gasification terminal at Dahej in Gujarat in 2004 and set another benchmark by unloading first Q-Max vessel at the Dahej terminal in December 2014. In 2013, Petronet LNG had successfully unloaded 1000th cargo at Dahej in a short span of about 9 years of operations.

"We are glad to receive first Q-Max LNG vessel, one of the biggest size LNG ships as on date, at the Dahej terminal last week and expect to receive more such cargos in the future. We look forward to further strengthening the time proven and cordial bilateral trade relationship between Qatar and India,"

— Dr A K Balyan, MD & CEO, Petronet LNG Limited.



Dr. A K Balyan receiving Best CEO award in the Oil and Gas category at the Business Today Mind Rush 2014



Petronet Team on Q-Max LNG ship-Mekaines at Dahej Terminal





What about foreign influences via international information flows? India ranks 116th out of 140 countries on international internet bandwidth per internet user. If not by Internet, by phone? Probably not. The average Indian spends only about 45 minutes per year talking to people in other countries by phone. People in nearly every other country are exposed to larger cultural influences via international people and information flows.



Focused Far from Home

Where India ranks near the top on our index is on the global "breadth" of its international interactions. While small, they are among the world's most globally distributed, ranking 22nd out of 140 countries. Something to celebrate? Not quite, because digging deeper into the

numbers reveals that India's high breadth reflects the small proportion of its international interactions involving other countries in South and Central Asia.

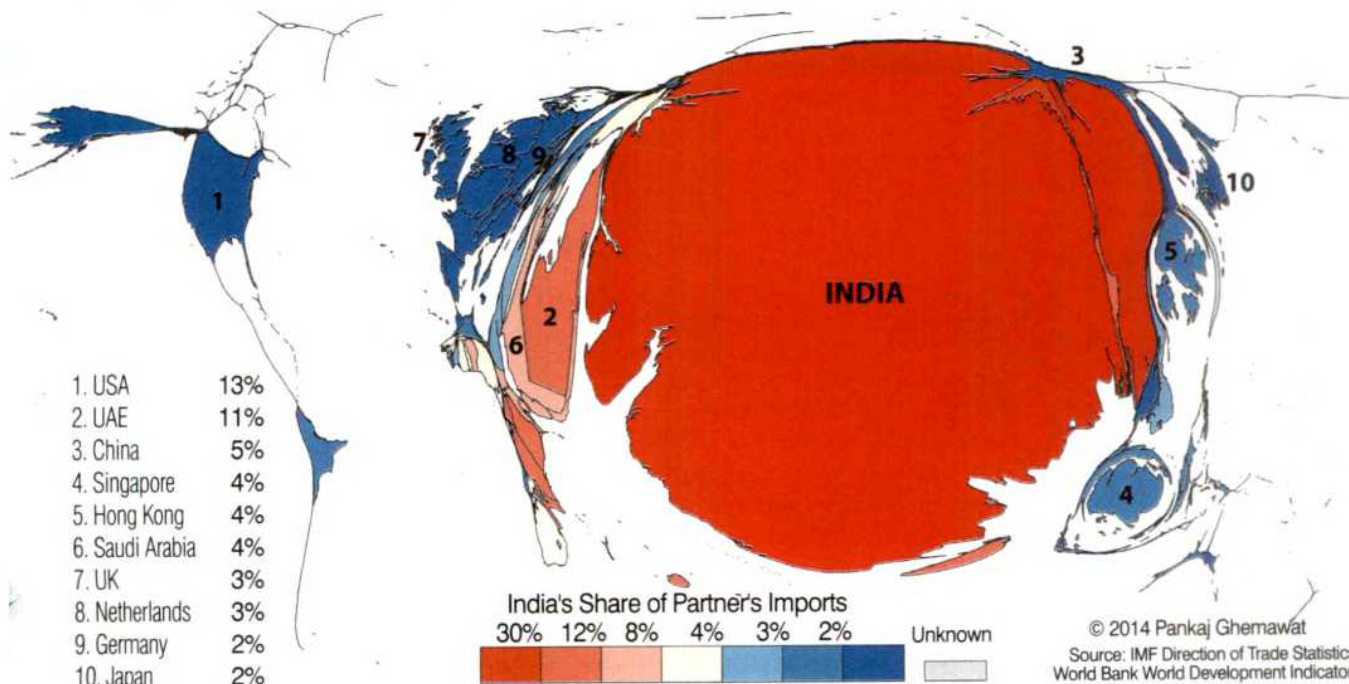
How little of India's international interactions take place within its region? Only seven per cent of its merchandise exports and 1 per cent of its merchandise imports do, even though more than half of the world's merchandise trade takes place within roughly continent-sized regions. Similarly the proportion of



India's FDI flows involving neighbouring countries is negligible. Somewhat more of India's outbound phone calls are intra-regional – 27 per cent – but again that proportion is far short of the global average (again more than half). The only real exception to this pattern is immigration into India, with 97

THRUST ON FOREIGN TRADE

World map with countries scaled according to India's merchandise exports to them and coloured based on India's share of their imports (India scaled according to its GDP minus exports)





per cent of immigrants hailing from within South and Central Asia.

There are, of course, obvious reasons for India's limited intra-regional integration, starting with its relationship with its largest regional neighbour, Pakistan. Why worry about low intra-regional integration? Because there are efficiencies that come with strong ties to proximate and similar countries. Without these, India's trade, capital, information, and people flows are depressed because of the higher costs associated with the unusually long distances they traverse.



Large Untapped Opportunities

As one of the countries with the smallest international flows relative to its size, few

global potential, Indian firms will have to boost capabilities to operate across the cultural, administrative/political, geographic, and economic ("CAGE") distances that separate India from other countries.

Many Indian firms targeting growth abroad may need to become more diverse internally and externally and at the top. Across the Fortune Global 500, the world's largest firms by revenue, 15 per cent of top management team members hail from outside their firm's home country. Yet, only two per cent of top management team members in India's Fortune Global 500 firms are from outside India, according to a study by Pankaj Ghemawat and Herman Vantrappen, Managing Director of

India's macro-level weakness on globalisation indicators also implies large micro-level untapped potential for the country's firms to do more business overseas. The limited extent of globalisation everywhere, however, underscores the challenges involved.

countries have more to gain from globalisation than India. Capturing that potential will require overcoming India's fears about opening up. Given the limited extent of India's globalisation today, many fears about it within the country seem exaggerated. A proper understanding of the magnitude of global flows reveals that many problems that are blamed on outside forces really have domestic root causes and require domestic solutions.

India's macro-level weakness on globalisation indicators also implies large micro-level untapped potential for the country's firms to do more business overseas. The limited extent of globalisation everywhere, however, underscores the challenges involved. To achieve their

Akordeon, a strategic advisory firm based in Brussels. A lack of diversity at the top not only slows a firm's learning about foreign markets but also sends problematic signals to high-potential foreign recruits about their career prospects.

Globalisation will remain controversial, and your view of the right path forward for India may differ from ours. At the minimum, by producing the DHL Global Connectedness Index (which is available for free download at www.dhl.com/gci), we aim to strengthen the globalisation debate by tracking the relevant data to make it a well-informed one. In the words of the late Daniel Patrick Moynihan: "Everyone is entitled to his own opinion, but not to his own facts." ♦



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Fostering Sustainable Development



BT ANNIVERSARY **2015**



By
Satya Poddar

ABOUT: Satya Poddar is Tax Partner, Policy Advisory Group, EY (formerly Ernst & Young). An expert on goods and services tax (GST), which he understood threadbare while helping the Canadian Ministry of Finance implement it, Poddar is often the go-to man even for senior tax department bureaucrats on taxation matters. He serves as a tax expert with the World Bank and International Monetary Fund

TAXATION

Reforming the Indian tax system is critical to putting the Indian economy back on a high growth trajectory

MAKING LEVIES LESS TAXING

In free market economies, governments play an important role by intervening to correct market failures. These are situations where the markets fail to allocate resources in an optimum manner for provision of various goods and services. The most notable example is that of so-called 'public goods' that are meant for public consumption, such as defence, law and order, health and education. Taxes are the only means for financing the public goods because they cannot be priced appropriately in the market. They can only be provided by governments, funded by taxes.

It is important the tax regime is designed in such a way that it does not become a source of distortion in the market or result in market failures.

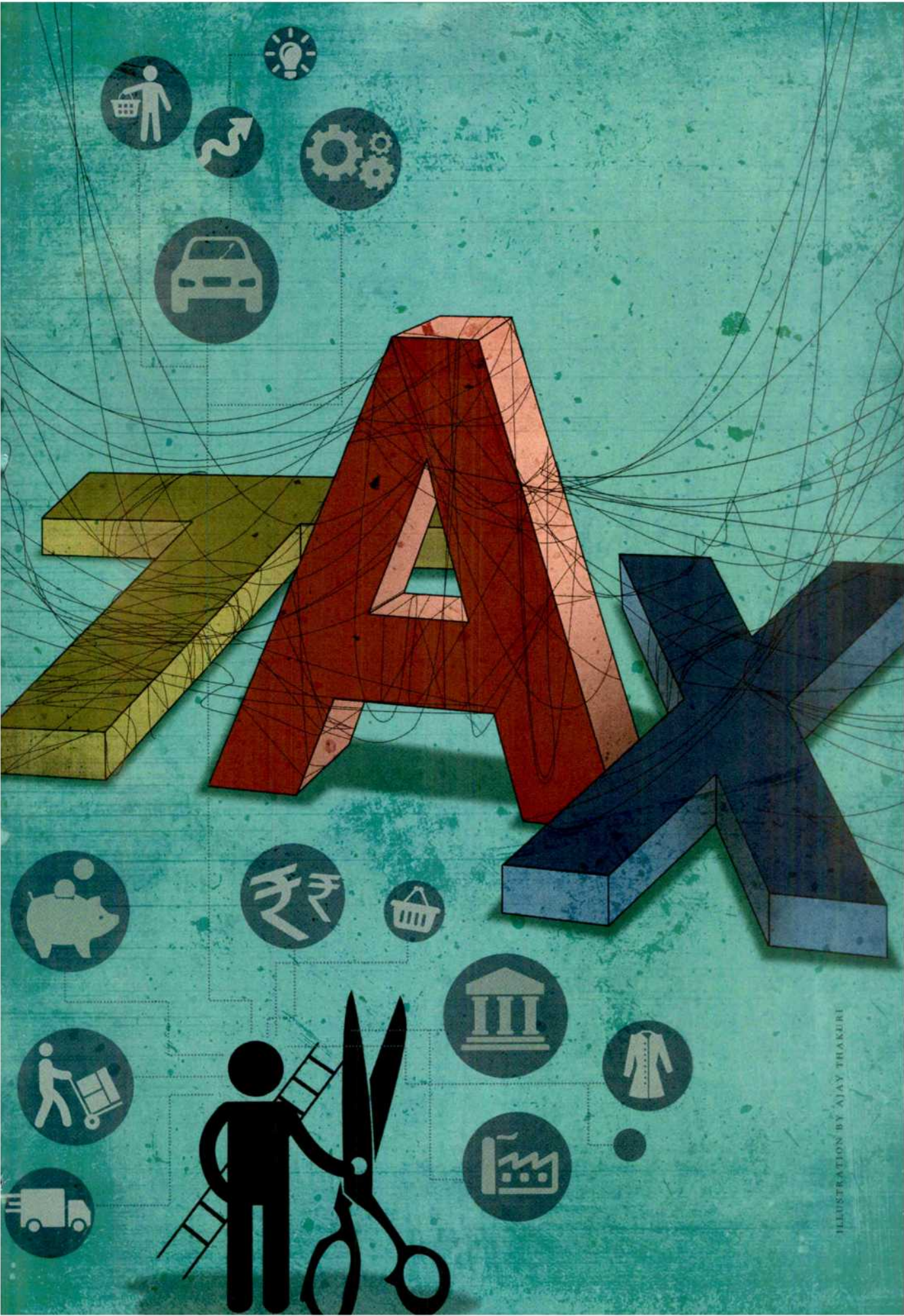


ILLUSTRATION BY AJAY THAKUR

THE MODERN TAX SYSTEMS COMPRISE OF VERY BROAD-BASED TAXES ON INCOME AND CONSUMPTION, levied at uniform and moderate rates. In India, taxes on both income and consumption fall far short of this ideal.

The tax laws should be such that they raise a given amount of revenue in an efficient, effective and equitable manner.

However, under most tax systems this remains a distant goal and the governments use the tax system for multiple social, economic, and political objectives, which create complexities in tax administration, undermine the objective of fairness, and lead to misallocation of resources in the economy. Reforms are needed from time to time to flush out the undesirable elements of the tax system and restore efficiency, fairness and equity. The Indian tax system is no exception and leaves a lot to be desired.

The modern tax systems comprise of very broad based taxes on income and consumption, levied at uniform and moderate rates. In India, taxes on both income and consumption fall far short of this ideal. The base is narrow and the rates very high. In the case of consumption taxes, the constitutional division of powers between the Centre and the states is such that neither can levy a tax on the comprehensive base of consumption of all goods and services.

While income tax can be levied by the Centre on a reasonably comprehensive base, it is not being done so because of special provisions catering to multiple, social, political and economic objectives and the vested interests of different segments of population. In the process, the tax system has become highly inefficient, comes in the way of optimum allocation of resources for production and consumption, and undermines investments and economic growth.

Compounding the ills of the bad design of these taxes, are the weaknesses of tax administration. In a recent review of the state of tax administration in India, the Tax Administration Reform Commission (TARC) has observed that "... the Indian tax administration is at its nadir. A fundamental and deep reform is urgently called for. There is no time to lose if investment is to be revived and its full potential reached, and an eventual tax revolt through capital flight or other direct protests is to be averted".

The state of Indian tax administration is also reflected in the World Bank Report on Doing Business in India, 2015 which ranks India at a dismal 156 out of 189 countries in terms of ease of paying taxes.

Rightfully, the governments have embarked on the reform of the tax system and there have been extensive debates surrounding the reforms. Two landmark reforms are the Goods and Services Tax (GST) and the Direct Taxes Code (DTC). GST would indeed be the most important initiative in the fiscal history of India. The ultimate objective of the GST reform is to replace multiple indirect taxes at the Centre and state levels by a single tax (GST), levied on a comprehensive base of all goods and services at a moderate tax rate. A vision of this reform is provided in the report of the 13th Finance Commission which outlines the design of a flawless GST levied at a moderate tax rate of 12 per cent (combined Centre and states tax rates).

Unfortunately, the states have been reluctant to endorse this flawless GST for various social and political reasons. The model that is being talked about will have some important exclusions from the tax base (e.g. real property, alcohol and petroleum). The states have also proposed tax to be levied at multiple rates – a lower rate for basic necessities and higher rate for other goods and services.

International evidence suggests that such deviations in the design of GST are neither economically desirable nor effective in achieving the objectives that they are designed to serve. For example, a recent OECD report





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points out that the exemptions and lower tax rates under VAT(value-added tax)/GST, while designed to help those in the lower-income brackets, benefit disproportionately those in the higher-income brackets.

The governments are considering the revenue neutral rates to be as high as 27 per cent. No country in the world has been able to successfully implement a tax at such a high rate. More importantly, application of such a high tax rate to the service sector would be highly detrimental to the sector, which has been the engine of growth for India. Rather than contributing to higher investments and economic growth, a tax at these rates would lock us back at a Hindu growth rate of 4 per cent.

Pending the GST implementation, the states are pursuing tax policies that are immensely detrimental to the economy. For instance, Punjab has converted its VAT on

what is left is only a little different from the status quo and amounts to little more than re-wording of the same provisions. Rather than proceeding with this package, there is a need to go back to the drawing board and redesign the direct tax system so that it has a broad base and moderate tax rate of around 25 per cent. Also, in the global economy of today, the Indian tax system should be fully aligned with that of our trading partners.

On the tax administration front, TARC has provided an excellent diagnosis of the ills of the current tax administration and made many thoughtful recommendations. It emphasises that in modern tax jurisdictions, the goal of tax administration is not to maximise revenue but to maximise voluntary compliance and minimise compliance gaps. The current practice of blind pursuit of revenue targets has an adverse impact on tax officer

Most of the reform proposals in the Direct Taxes Code have been modified to such an extent that what is left is only a little different from the status quo and amounts to little more than re-wording of the same provisions

most consumer goods from a multi-point tax on the full supply chain to a tax at the first point of sale. Uttar Pradesh has announced that for many transactions the VAT, rather than being collected and remitted by the vendor, will be deducted from the price by the customer and remitted directly to the government. Many states, most notably Tamil Nadu, Karnataka and Gujarat, are denying the credit for the tax paid on investments and other production inputs.

Another landmark reform is the DTC, proposed by the government in 2010. The design of this income tax reform has been contentious from the very inception. While its objectives were to broaden the base and lower the rates, there was no consensus on how the base should be broadened.

Most of the reform proposals in the DTC have been modified to such an extent that

equilibrium and leads to harassment of taxpayers. The TARC Report calls for all processes to be modernised to the point of making them 'digital by default'. Other feature that needs attention is the minimisation of tax disputes. The growing volume of tax disputes in India has earned the tax administration the label of "tax terrorism" and has given India a bad name in jurisdictions across the world. This has been the single most important factor contributing to the downturn in investments and economic growth.

The new government has appropriately provided a new direction to tax reforms in India and revived the hopes of Indian economy resuming its journey on the high growth trajectory. The reform of both direct and indirect taxes and the tax administration is fundamental to achieving these objectives of the government. ♦

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By
Rajan Anandan

ABOUT: Rajan Anandan, Managing Director of Google India, has multiple avatars. A prolific speaker, he is also an angel investor and a mentor to budding entrepreneurs.

Google's man in India is a former partner at McKinsey, was executive assistant to Dell founder Michael Dell, and has worked at Microsoft in India

ILLUSTRATION BY AJAY THAKURI

INTERNET

In the years to come, the robust growth in Internet penetration and usage will disrupt existing business models and make way for new ones

BIG BANG BROADBAND

Y

ear 2014 has been a monumental one for Internet in India. According to a research report by IMAI and IMRB, by December 2014, India would have crossed 300 million Internet users. It took 10 years

for India to grow from 10 million to 100 million Internet users and another three years to go from 100 million to 200 million. The journey from 200 million to 300 million users took less than two years. The next 100 million will happen in less than 18 months.



THE MOVEMENT FROM 35 MILLION ONLINE CONSUMERS TO 100 MILLION WILL IMPACT INDUSTRIES IN FUNDAMENTAL WAYS. The smartphone and the electronics industries will be the first. In the next few years, we will see new brands that will go from zero to hundred of crores of revenue in a few years by having products that will be distributed digitally

The growth momentum is across all aspects of the Internet. Mobile, social, video, e-commerce, local and digital advertising are all growing incredibly fast. At the current growth rate, India will have over 500 million Internet users by 2017. On a percentage basis, India already has more "mobile only" Internet users than any other country in the world. Over 50 per cent of our Internet users are "mobile only". There is no other large country where more than 15 per cent of Internet users are "mobile only".

The next 200 million Internet users – as we go from 300 million to 500 million – will access Internet only through mobile phones. It has all kinds of implications for internet companies, many traditional industries and the government.

The e-commerce industry that was non-existent a few years ago is today worth \$5 billion. There are 35 million Indians who buy products online – electronics, apparel, baby products and so on. It will touch 100 million transacting users by 2016. There are only two countries where there are more consumers buying online – the US and China.

The movement from 35 million online consumers to 100 million will impact industries in fundamental ways. In China, Xiaomi, a company that was launched four years ago, has become the number

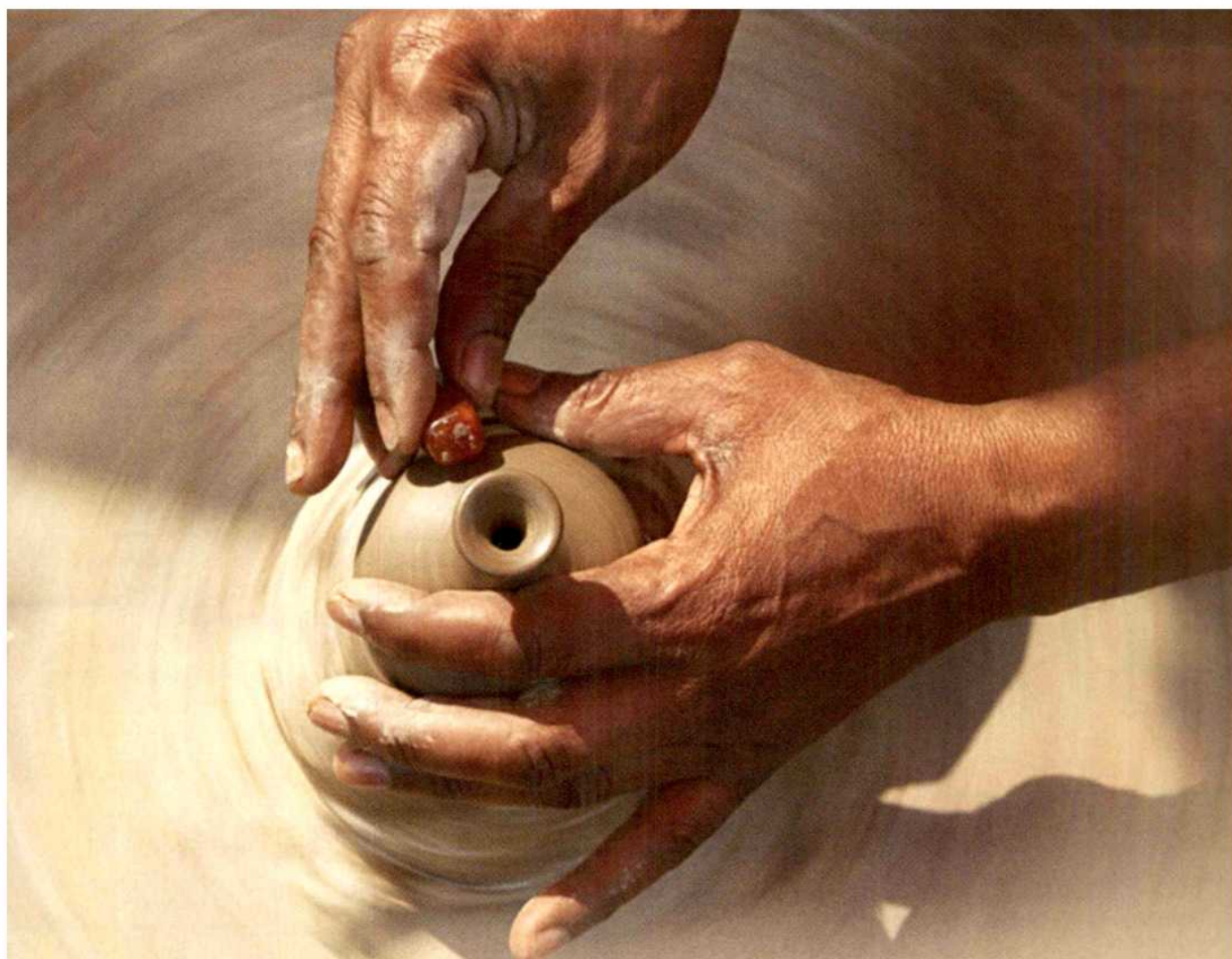
one smartphone brand in China. This will begin to happen across industries in India. The smartphone industry and the electronics industry will be the first to be impacted. Over the next few years, we will see new brands that will go from zero to hundreds of crores of revenue in a few years by having great products that will be distributed digitally. Everything from electronics to apparel to even homes will be bought online. Recently during the first day (December 10) of the Great Online Shopping Festival, Tata Housing got 10,000 registrations for its homes!

There are a large number of well-educated moms with high disposable income in India. So e-commerce companies in the baby products space will do very well. If a start-up figures out to make a high quality baby product that is affordable and is smart at digital marketing, can you get to five per cent to 10 per cent share of the market and get to ₹1,000 crore revenue in a hurry? Yes, absolutely.

In China there are thousands of brands that never existed before and have massive revenue because there are 300 million Chinese who buy online. China's e-commerce industry is now 50 per cent bigger than the US (based on Gross Merchandise Value). The reason is organised retail was not pervasive across China. Digital happened, they got connected and all of a sudden, they started buying online. India will go through the same cycle. I know there is a lot of concern in the ecosystem about pricing but all this will settle down.

Nevertheless, 70 per cent of India lives in rural areas. E-commerce companies will reach every nook and corner of the country over the next four to five years. I think the possibility for existing brands to increase their reach is going to be exciting; we will start seeing disruptive companies.

What does this mean for organised retail in India? Organised retail is so small in India that it has got a 100x potential. In a country of \$450-billion retail industry, only 10 per cent is organised. Organised retail will continue to grow because it has massive headroom. At the same time, e-commerce will also be very large. I find the debate of organised retail versus online



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retail quite amusing.

E-commerce is \$5 billion this year and will be \$15 billion in 2016. As long as the environment is conducive – funding continues to come to build-out infrastructure – e-commerce will be \$50 billion by 2020. Now this is the size of organised retail today. If organised retail grows at over 10 per cent when the economy grows at six per cent to seven per cent, the organised retail will be at \$80 billion to \$100 billion. So even in 2020, e-commerce will only be half of organised retail. If you fast forward to 2030, the ratios would change.

Moving on to entertainment, it is obviously the “billion user opportunity in India”. What is the one thing we know for sure that 500 million Indians will consume for four hours every day? It’s online

worry about? One is the pace of broadband. While six million new Internet users get added a month, the fact is that half of these users are on 2G networks. When someone is on a 3G network, they consume five times more data and spend a lot more time online. Hopefully in 2015, we will start seeing an inflection point in broadband access. There will be continued roll out of 3G. Airtel has launched 4G in Bangalore and Reliance Jio should launch sometime in 2016. Obviously, we need more spectrum. In education, for example, just putting PowerPoint slides on the Internet will not change the calibre of education. We need interactive videos like with the Khan Academy in the US. But to do video you need broadband. In health care, imagine a doctor talking to a patient

6 Million new Internet users are getting added a month but they are on 2G network. When someone is on a 3G network, they consume five times more data and spend a lot more time online. Hopefully in 2015, we will start seeing an inflection point in broadband access

video. Take YouTube: 60 million visit the site frequently. If you make affordable online video a reality, Indians will spend 3-4 hours a day watching online videos. But it is constrained by bandwidth; 20-year-olds like online video but they can’t afford it and they can’t get it. But as the broadband situation changes and disposable incomes go up, entertainment will become massive.

The other sectors that will impact India much more profoundly are health care and education. We don’t have enough schools or teachers. The most innovative online education companies will come from countries like India because here is where the real need is. In health care, like in many other areas, we will see innovations that are India-specific and based on necessities. RedBus is an example.

That said, what are the two things I

in a remote village through a broadband that can transmit high resolution videos.

My second worry is that currently there is no Indian language content on the Internet. Much of the six million new Internet users getting added will be proficient in their local language. There are only 22,000 wiki pages in Hindi. We have 400 million Indians who are proficient in Hindi. Estonia has 1.5 million people and they have 55,000 wiki pages. However, building out the Indian language Internet has challenges. We need more access, keyboards that are easier to use and speech recognition capability. We need high-quality open-source fonts and 1,000x more local language content. We have launched the Indian language Internet Alliance and are very excited about the progress. ♦

(As told to Goutam Das)



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Clayton Christensen

ABOUT: A professor at the Harvard Business School, Christensen is known to push the envelope of management thinking, be it in innovation and growth or the ethics of management

ILLUSTRATION BY RAJ VERMA

INTERVIEW

DISRUPTIVE INNOVATION IS A STRATEGY, **NOT JUST THE TECHNOLOGY**

CLAYTON CHRISTENSEN is widely regarded as the world's foremost management guru of today. In a rare interview, Christensen tells Business Today the relevance of his theory of disruptive innovation and explains with real-life examples how it could play out in today's context. The interview was conducted on phone and email by ANIRBAN SEN, a Bangalore-based freelance writer.

Seventeen years ago, you wrote your widely acclaimed book on disruptive innovation that proved to be an agenda-setter for businesses worldwide. What has really changed since then and how have some of the theories that



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you explained in your book evolved since then?

The diagram of disruption has a vertical axis and a horizontal axis. It's very important in understanding where and how is disruption happening. Because every industry has to have a different metric on the vertical axis. For example, in the airline industry, the vertical axis is the length of the route that measures how successful they are. For an airline, long routes are more profitable than short routes. So, around the world, the big international (airline) firms are trying to focus more and more of their offerings on long routes and big planes. And they don't worry about short routes and regional jets because those are less interesting and less profitable to them. So they are moving upmarket in that sense. The entrant companies like Ryanair in Europe and Southwest in America – they came in on short routes and they are disrupting the airline industry because they go on longer and longer and longer routes. So, that's the mechanism by which [disruption] happens.

And, in the information technology industry, I think the vertical axis is the size of the engagement with the customer. In other words, big engagements with big corporations are much more profitable than short-term or limited en-

gagements with small and medium customers. And so they're going after bigger and bigger clients. And they are doing a great job. Where the disruption comes from is in: are there companies out there that are primarily cloud-based who have business models of going after small and medium corporations? Those are the ones that would be disruptive to the big ones.

Which are the industries that you see getting disrupted a few years down the line or industries that are already on the verge of being disrupted?

Higher education, I think, is being disrupted in a powerful way. In software, Oracle is in the middle of being disrupted. In defence, our traditional ways of organising defence is getting disrupted by terrorism. Our armed services are not organised to deal with terrorism as a disruptive force.

Some such as Harvard historian Jill Lepore feel that your theory on disruptive innovation doesn't hold true anymore. What do you say about the arguments that she has put forth?

I believe strongly in the predictive power of the theory of disruptive innovation. The theory remains a valuable tool for managers to build successful businesses. We've improved our understanding, and its predictive power, from



our first discussion of the disk drive industry and we continue to improve it today.

(The paragraphs below in answer to this question were paraphrased by Christensen from a lecture he gave at Oxford in June 2013.) When considering how theory is built, I often think of the development of human flight. The earliest research into flight involved categorising its observed phenomenon. So researchers studied animals that could fly and they noticed that many of them had wings and feathers. With that observation they built artificial feathered wings and strapped them to their arms. They climbed cathedral spires and jumped but despite flapping their arms as hard as they could, it never worked.

For a long time, people looked at those attempts and ascribed their failure to not

that we learned that the causal mechanism of flight is the shape of the airfoil of the wing, not the wing itself. After a few centuries of attempting to build wings with effective airfoils, inventors like the Wright brothers were able to create wings that allowed man to fly. However, they still crashed. Those crashes allowed the pilots to understand the circumstances that caused Bernoulli's principle to lead to failure and not flight. They could then create if, then statements that enabled accurate prediction, broad applicability and deep explanatory power.

Similarly, we are refining the theory by observing anomalies to its predicted result and like the researchers of flight, we're developing a larger set of if, then statements to deepen the theory's explanatory power

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flapping hard enough or bad wing design and they tried to solve the problem along those dimensions. But in 1285, [Roger] Bacon changed the entire study by explaining that the attribute that determine whether animals could fly, or are stuck on land, is whether they have hollow or solid bones. Because people have solid bones, we would never be able to fly.

People took that and then began trying to build flying machines but it wasn't until Daniel Bernoulli studied fluid mechanics

and broaden its applicability.

A crucial element of good theory is that it can be improved through the study of anomalies. If someone has an idea that can't be improved by studying anomalies, it isn't a good theory because it can't be refined to create the "if/then" statements that enable accurate prediction. Many researchers view anomalies as a bad thing, but really, anomalies are the only thing that allow us to improve our theories, so they're really a pretty

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**WHEN THINKING ABOUT HOW TO PREDICT
DISRUPTIONS, IT'S CRUCIAL TO REMEMBER
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but the technology itself isn't disruptive**

helpful thing if you can look at them as a learning opportunity.

What's a reliable way to predict that a new technology will be a successful disruptor in the future?

When thinking about how to predict disruptions, it's crucial to remember that it's not about the technology itself; disruptive innovation refers to a strategy that employs a technology, but the technology itself isn't disruptive.

(The paragraphs below in answer to this question were paraphrased by Christensen from his book The Innovators Solution.)

Consider the case of vacuum tubes and transistors. RCA was the market leader in vacuum tubes. They licensed the transistor technology from Bell Labs and spent great sums of money working to commercialize it. But they always framed it as a technology problem and tried to improve its performance to be superior to vacuum tubes. Consequently, in the hands of RCA, and applied through its strategy, the transistor wasn't disruptive.

Sony, on the other hand, saw the transistor and recognised that the technology could be used in new applications where it didn't matter that it was inferior to vacuum tubes because the alternative for consumers was nothing. So Sony began developing transistor ra-

dios, creating a new market, and improving the technology until it was comparable and then superior to vacuum tubes, and the rest is history.

The case of the transistor shows that the technology itself isn't defined as disruptive but rather the application of the technology can be disruptive, or not. Often technologies that are applied in disruptive ways are created by the incumbents but because they try to position it as a performance improvement to their existing offerings, it doesn't become disruptive until an entrant repositions it in line with a disruptive strategy. Therefore, the crucial question to ask is "what's a reliable way to predict that a new strategy will be a successful disruptor in the future?"

There are common elements of all disruptive strategies. First the strategy must target over-served customers or customers in a new market with products that are cheaper and simpler than existing offerings. For customers in a new market, the product must solve a job that they're already trying to solve.

To be cheaper and simpler, the product must possess an enabling technology that allows it to fulfill the job for which it's hired at a lower price than incumbent offerings. The strategy also has to be disruptive to all other strategies; if it's sustaining to an existing strategy, the company with that strategy is most likely to win.

Keeping what you said about bigger IT companies getting disrupted by smaller cloud-based firms in mind, what do you think Indian IT companies need to do? Do you feel that



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some of them have become so large and so successful, that they have become complacent? [Christensen sits on the board of Tata Consultancy Services (TCS).]

Let's go back to the word that you used. You used the word 'complacent'? Absolutely wrong. I only know TCS well. They compete against really capable competitors and they are not complacent in any way. And that then creates problems with disruption because their energy by definition is to have even stronger relationships with even bigger clients. They are very aggressive, they are very capable. So, the only question is can they keep doing that and still go to the bottom of the market? The business model down at the bottom is so different

of the kind that IBM faced in the early 90s?

Again, I think the big one is small and medium businesses. And companies that have business models that are serviced by the cloud. So, do I think that the current leaders of the industry will be disrupted by these things? It depends completely on whether the current leaders recognise this. And, for one, I think TCS recognises this. Then, are they successful in creating a completely independent company to come up with a different business model? And the answer is, you can't predict for sure (laughs).

It's one of the biggest challenges of management that nobody has done it successfully and a few have sometimes. Like IBM. In the hardware business they got

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than the business model that they have been going after – the big ones, the biggest clients – that they truly have to set up a completely different business unit that is very separate and managed separately. It's not that this new business of small and medium is less profitable. You can be equally profitable but you earn the profitability with a different formula. So, TCS for one, is really going after that. Whether they'll succeed, who knows? Because it's very hard to create a company that has different processes and different people and different formula by which they make their money.

When you see large Indian companies like Infosys or TCS, do you see them facing near-term disruptive threats

disrupted – the mainframe got disrupted by the mini-computer. And the mini-computer got disrupted by the personal computer. And IBM managed those two transitions marvelously. They were the only corporation that made the transition from mainframe to mini and from mini to personal. IBM survived those and became a leader in the next generation. But everyone else in the world was disrupted. And then the next time around with the smartphone, IBM just completely missed that. I was discouraged when that happened because I realised that nobody has transitioned across that over and over again.

I have a lot of hope that these disruptions, when small and medium businesses are serviced by a new business model from the IT companies, the market is going to

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QUITE A LOT OF COMPANIES, IF THEY WANT TO GROW, THEY WILL ESTABLISH AT THE CORPORATE OFFICE A CHIEF STRATEGY OFFICER OR CHIEF-SOMETHING OFFICER. As if what they're doing is, delegating the responsibility for growth to a corporate office

grow a lot. And I think that the existing players I hope will be able to make this transition like IBM did. Now, if you look at Cognizant, 10 years ago they were not viewed in the same league as Wipro, TCS and Infosys. And I think Cognizant played this game. They came in very aggressively with smaller clients and they've gone up.

What makes you so confident about TCS? What are some of the things that you think TCS is doing well in and will ensure survival from possible disruption?

I will tell you that I've been on many other boards of directors of companies. And at all of those other board of director meetings, I come prepared to give input. And to disagree with the management and you know, I go feeling like I have a lot to add. But when I go to the TCS board meetings, I just take an open notebook to take notes! These are very good managers, they're just extraordinary. And when I finish the meeting, I feel like I went to school. And I was not the teacher! (laughs)

Anyway, I can imagine that the leadership at the other majors are very good too. What I'm inspired by at TCS are a couple of things. One, I would say in America nobody is emulating this one – that is, TCS hires 40,000 software engineers every year. 40,000 is a big number. So what they do is that they take them through a process that takes about six months and they unteach some of the fundamental things about software that these engineers

just finished in college. And TCS has a different way to think about it. And in six months, they have created engineers that have no parallel in the world. If they can take these engineers and send them across the world to solve the world's most complicated IT problems, it's just extraordinary. And that exists in the process by which they teach their engineers how to solve software problems and how to build software solutions. That's the most impressive thing about management that I've observed – boy, they think a lot about how they train their people and to do it better and much lower in cost than anybody else that I know of.

The second one is that they really are up there with their senior management. They've taught them a lot about how to identify new growth opportunities in their broader space. Quite a lot of companies, if they want to grow, they will establish at the corporate office a chief strategy officer or chief-something officer. As if what they're doing is, delegating the responsibility for growth to a corporate office. And I think TCS, in contrast, asks growth is in shortness of things to focus on for everybody in the company because it's really the engineers who are managing projects all around the world – they really see what's going on in the market and how you solve those problems. And most companies don't have the ability to identify these opportunities and build a business around them. And somehow TCS has a mechanism towards identifying these cases as they bubble up in each project and create new growth opportunities around those and keep them separate.

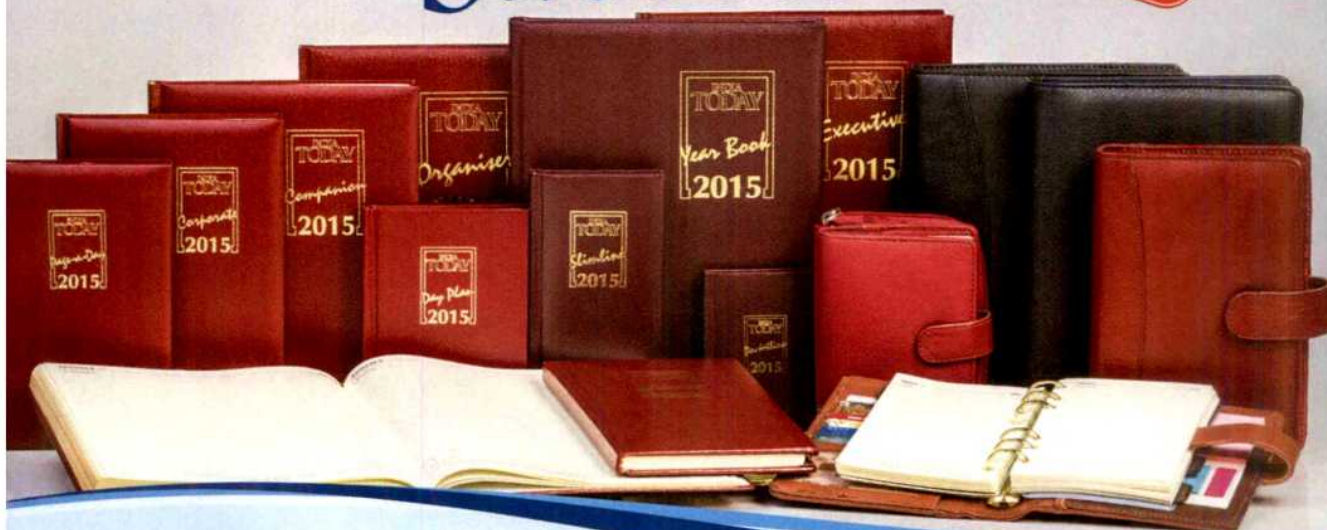
We'll see how that works, but it's kind of like a metaphor – if you wait until the weather is so hot and then and only then do you plant a shade tree, it doesn't have much impact. You have to plant the shade tree long before it gets hot. And I think TCS for one understands that competition and growth, once you've penetrated the Global 2000, there are not bigger clients than the Global 2000. You know that the world is gonna change and I think TCS is planting some good shade trees so the heat doesn't kill them. ♦



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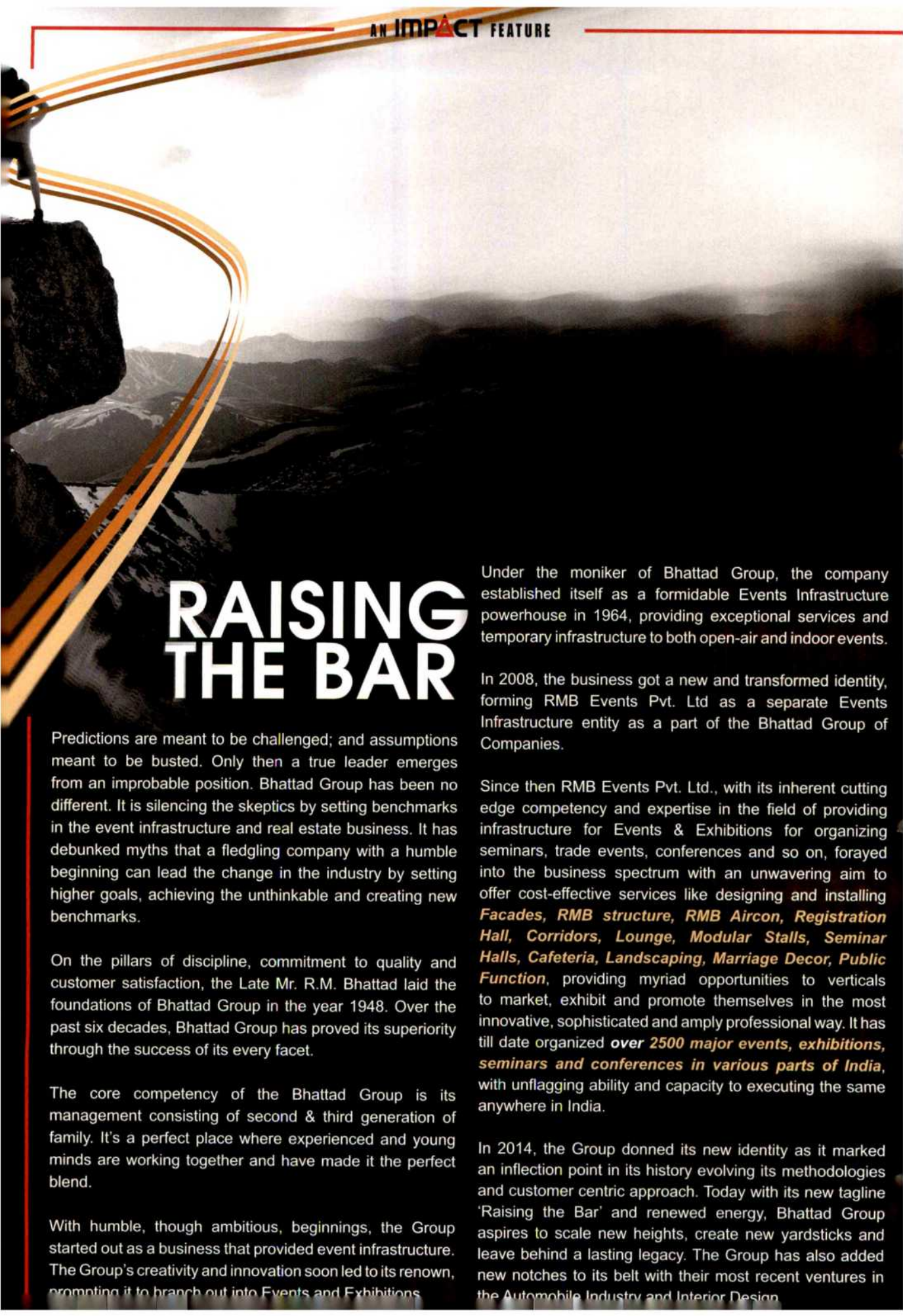


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RAISING THE BAR

Predictions are meant to be challenged; and assumptions meant to be busted. Only then a true leader emerges from an improbable position. Bhattad Group has been no different. It is silencing the skeptics by setting benchmarks in the event infrastructure and real estate business. It has debunked myths that a fledgling company with a humble beginning can lead the change in the industry by setting higher goals, achieving the unthinkable and creating new benchmarks.

On the pillars of discipline, commitment to quality and customer satisfaction, the Late Mr. R.M. Bhattad laid the foundations of Bhattad Group in the year 1948. Over the past six decades, Bhattad Group has proved its superiority through the success of its every facet.

The core competency of the Bhattad Group is its management consisting of second & third generation of family. It's a perfect place where experienced and young minds are working together and have made it the perfect blend.

With humble, though ambitious, beginnings, the Group started out as a business that provided event infrastructure. The Group's creativity and innovation soon led to its renown, prompting it to branch out into Events and Exhibitions

Under the moniker of Bhattad Group, the company established itself as a formidable Events Infrastructure powerhouse in 1964, providing exceptional services and temporary infrastructure to both open-air and indoor events.

In 2008, the business got a new and transformed identity, forming RMB Events Pvt. Ltd as a separate Events Infrastructure entity as a part of the Bhattad Group of Companies.

Since then RMB Events Pvt. Ltd., with its inherent cutting edge competency and expertise in the field of providing infrastructure for Events & Exhibitions for organizing seminars, trade events, conferences and so on, forayed into the business spectrum with an unwavering aim to offer cost-effective services like designing and installing **Facades, RMB structure, RMB Aircon, Registration Hall, Corridors, Lounge, Modular Stalls, Seminar Halls, Cafeteria, Landscaping, Marriage Decor, Public Function**, providing myriad opportunities to verticals to market, exhibit and promote themselves in the most innovative, sophisticated and amply professional way. It has till date organized **over 2500 major events, exhibitions, seminars and conferences in various parts of India**, with unflagging ability and capacity to executing the same anywhere in India.

In 2014, the Group donned its new identity as it marked an inflection point in its history evolving its methodologies and customer centric approach. Today with its new tagline 'Raising the Bar' and renewed energy, Bhattad Group aspires to scale new heights, create new yardsticks and leave behind a lasting legacy. The Group has also added new notches to its belt with their most recent ventures in the Automobile Industry and Interior Design.



ENDEAVOR INTO REAL ESTATE

Over the first couple of decades, Bhattad Group amassed a flourishing cache of land banks, having development potential of over 150 lakh sq. ft. in and around Mumbai. Prompted by its developmental potential, the Group further expanded its ambitions into the field of Real Estate. The Group has entered into private equity partnerships for development of some of its land parcels.

Understanding the need of the hour, Bhattad has immersed itself into constructing high end luxury projects that have consistently raised lifestyle benchmarks; projects that stand out as well-planned residential and commercial masterpieces

Designing and constructing a smart home, one that addresses the aspirations that define modern urban living, calls for smart thinking. The Group invests their edifices with a large measure of IQ: the Innovation Quotient that takes into account not just the big, all-too-visible features, but also all the myriad little details that go into making a good lifestyle great.

With an appetite for growth that is on a truly universal scale, the Group has set its sights on bigger opportunities, with the objective of marketing and establishing brand Bhattad on par with the best in the world of realty. Celestia Spaces is one of Group's ongoing projects that exude opulence and luxury. The first phase comprises a 50 Storey, 2 Towers on first 5.50 acres of land parcel in Sewri, as Joint Development with Peninsula Land Limited. Another ongoing project is Bhattad Aurus, a 8 storey Residential & Commercial project in Borivali (W) with 2 & 3 BHK apartments

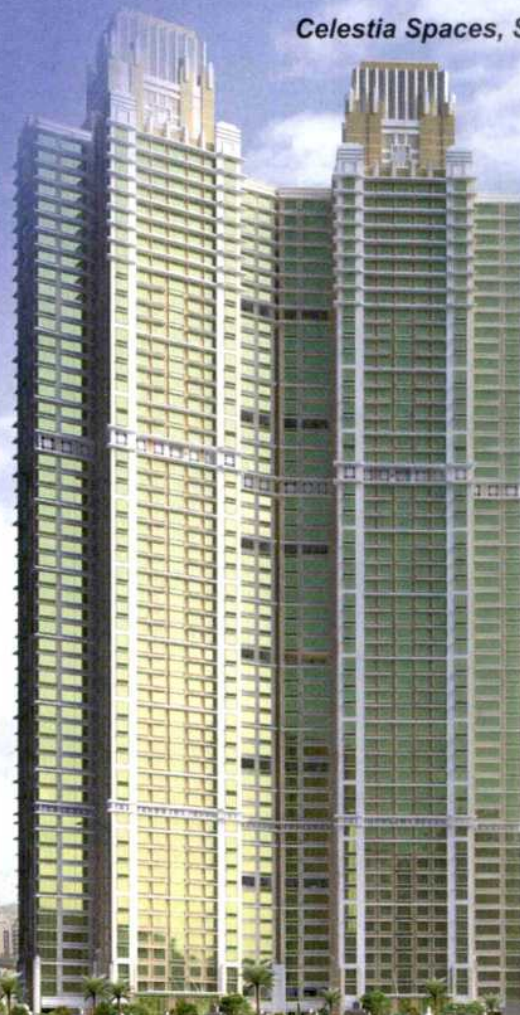
Among the Group's completed projects are Bhattad Towers, a mix development at R. M. Bhattad Road in Borivali (W) and Bhattad Augustine, a premium residential project nestled in serene area of Goregaon-Bangur Nagar.

INSPIRING THE FUTURE

The company's upcoming projects in next 1 year includes a proposed premium 23 storey tower at Walkeshwar and a mid segment redevelopment project in Girgaon. That's not all, in next 3 years the group has a plan in place for premium development on rest 14 acres of land parcel in sewri, a mid-segment redevelopment projects of 23 & 20 storeys at Girgaon and a proposed mid-segment redevelopment project of 23 storeys in Sewri.

The company has experienced a high growth trajectory since inception. Their growth strategy vests upon their vision and forecast plan, further, converting them into reality and implementing them unto the clients' benefits. The company mirrors a monumental economy growth and a favourable upsurge in this spectrum in the years to come. Bhattad group aims at augmenting their customer base nationwide and anticipates surpassing newer milestones in the years to come.

Celestia Spaces, Sewri



NMDC ON HIGH G

NMDC Limited, India's largest producer of iron ore, is in the process of massive expansion and diversification activities both in India and abroad. The company is firing on all cylinders as it aims to transform itself from a provider of raw material to maker of steel and pellet.

Under the able leadership of Narendra Kothari NMDC has not only registered tremendous growth in production and sales but also managed to sustain its growth momentum in a gloomy economic scenario marked by a global slowdown and subdued iron ore prices.

A steel industry veteran, Kothari was the CEO of IISCO Steel Plant, Burnpur, Steel Authority of India Ltd (SAIL) before joining NMDC.



Narendra Kothari

Chairman-cum-Managing Director NMDC

“ We are setting up a steel plant in Bastar region at an investment of \$3 billion, which will be ready by the end of 2016. The plant will help local people in the area. Our pellet plant at Donimalai in Karnataka with an annual production capacity of 1.2 million tonnes will be ready next year ”

“ NMDC is in the right path to achieve production and sales of iron ore of more than 32 million tonnes for this year,” says Kothari. According to him, demand for NMDC's iron ore, both in export as well as in domestic market is likely to remain conducive during current financial year 2014-15.

NMDC will soon come out with a detailed action plan to achieve over threefold jump in production at 100 million tonnes in 10 years.

By 2018-19, our production will reach 65 million tonnes and by 2024-25 we would cross 100 million tonnes. That is our growth plan,” said Kothari.

“The company plans to adopt a two-pronged strategy to achieve this target. Besides enhancing production from its existing mines, it has plans to open new mines in the country and abroad either independently or through joint ventures to add capacity.

“ We will be ready with a detailed action plan to achieve the set target of production by March 2015,” says Kothari.

As part of the plan to enhance production the company has started construction of Deposit 11B mine in Chhattisgarh with an annual capacity of 7 million tonnes and Kumaraswamy Iron Ore Mine in Karnataka with a capacity of 7 MTPA. Both the projects are expected to be commissioned by March 2015.



Narendra K. Nanda
Director Technical



S. Thiagarajan
Director Finance

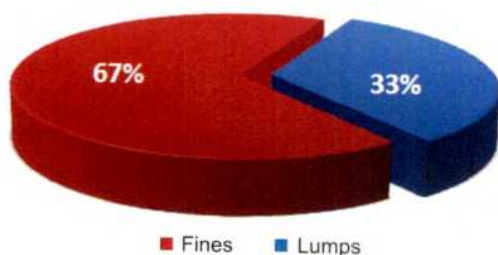


Rabindra Singh
Director Personnel



Dr. T.R.K. Rao
Director Commercial

Product Portfolio



Iron Ore Production



GROWTH TRAJECTORY



Performance - Q1

	2014-15	2013-14	Growth (%)
Production	79	69	15
Sales	86	73	18

(fig. in lakh tonnes)

Performance - Q2

	2014-15	2013-14	Growth (%)
Production	64	59	9
Sales	73	65	12

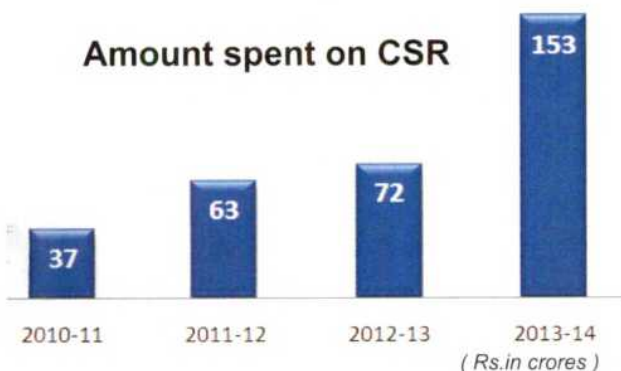
(fig. in lakh tonnes)

As part of its growth strategy, NMDC is focusing on strengthening its global market position by augmenting resource base in the country and abroad. It is expanding its footprint in regions like Australia, Russia, USA and Africa in Iron Ore, Coal, Manganese and Rock Phosphate/Potash.

Awards won by NMDC

- Most Efficient Navratna Award by Dalal Street Investment Journal
- Most Valuable Company Award in Navratna Category by India Today PSU Awards
- Best Mining Company under Mining Sector by Dun & Bradstreet
- BT-Star PSU of the year for Outstanding Performance - among Maharatna and Navratna PSUs by Bureaucracy Today.

Amount spent on CSR



Dividend Payout

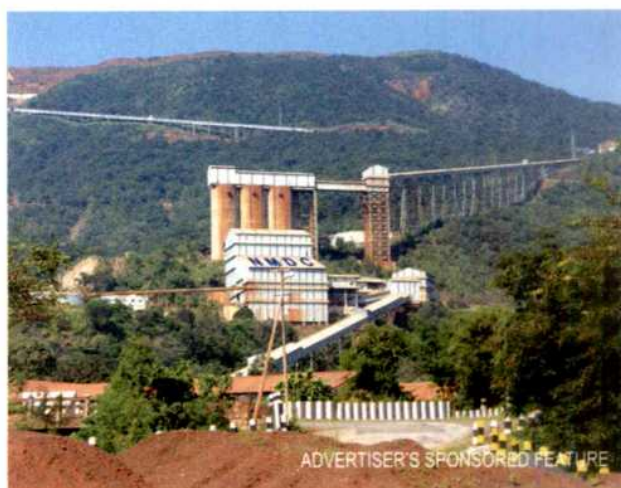


In a style manifesting greatness and gentleness befitting a true leader, Kothari gives credit to his employees and their efforts in achieving high production to meet the rising demand of steel industry.

Another matter of pride for the company is that its CSR initiatives have become an integral part of the business model of NMDC. Company's sustainable development programmes focus on education, medical care, infrastructure and integrated village development. "We plan to spend over Rs 200 crore this year for CSR activities," says Kothari.

Kothari feels, the new government's thrust on the manufacturing sector, construction of 100 smart cities, opening up of FDI, steps to expedite environmental and forest clearance will promote infrastructure development in a big way leading to boost in demand for iron and steel sector.

NMDC is well placed in the scenario considering its position as India's largest iron ore producer and will be able to achieve the multi-volume growth based on the strong platform.



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BT ANNIVERSARY **2015**



By
Rama Bijapurkar
and
Rajesh Shukla

ABOUT: Among the keenest watchers of Indian consumers, Rama Bijapurkar and Rajesh Shukla are co-founders of People Research on India's Consumer Economy, a not-for-profit research centre on India's consumer economy and citizen environment. Bijapurkar has served on boards of several Indian companies and is author of *We are Like That Only* and *A Never before world*. Shukla, formerly director at NCAER Centre of Macro Consumer Research, is author of *How India Earns, Spends, Saves*

ILLUSTRATION BY AJAY THAKUR

INEQUALITY

Inequality in India has reduced in the last decade but the key to reducing the still yawning spread in incomes is supporting an entrepreneurial ecosystem with gusto

BRIDGING THE INCOME GAP

The discussion inside India on inequality has become very complex and fragmented. Lost in the maths and the economic theory, the ideology and the international comparisons is the "people view". It's the tower of Babel and the

championship of silo-ed thinking out there.

Gini coefficients (based often on expenditure survey data which are kinder measures of inequality than income data or based on theoretical income distributions derived from experiences of other countries), poverty line measurement debates, confusingly opposite conclusions offered by



market economy supporters, and welfare economy supporters using the same data on whether trickle-down has happened or not, horrific census statistics on toilets and water and equally horrific stock market indices all jostle together. And demographic dividend discussions and skill building and job creation discussions don't have reduction of income inequality as the explicit goal that they chase.

Let's get this debate back to the basics – taking a "peo-



household survey late in 2014, representing all Indians (not just people in urban India shopping at malls). One lakh household listing interviews and 20,000 detailed income, expenditure, occupation, inclusion-related interviews were done, covering 21 states grouped into seven clusters, and over 1,000 survey locations. As is common international best practice, respondents were asked their income details for a reference period of

INCOME INEQUALITY: THE RICHEST 20% (Q5) GAIN THE MOST

Population quintiles based on per capita income	No. of households in each quintile 2013/14 (mn)	Share of India's household income %		Average absolute household income (at 2013/14 prices) ₹ @	
		2004/05	2013/14	2004/05*	2013/14**
Q1 (lowest)	44.6	6.5	6.6	80,175	1,34,274
Q2	47.8	10.4	11.0	1,18,862	2,09,503
Q3	54.8	14.4	15.0	1,56,647	2,48,733
Q4	60.2	20.8	21.2	2,21,989	3,18,639
Q5	62.6	47.9	46.1	4,72,148	6,67,955
TOTAL	270 MN	100	100	2,19,469	3,35,643

*2004/05 data from "How India Earns, Spends, Saves". Rajesh Shukla (SAGE), based on NCAER NSHIE study data;

**2013/14 data from People Research on India's Consumer Economy, ICE 360° database.

@ Income estimates using ICE 360° income distribution and CSO personal disposable income data.

ple view" and not a supply-side or macroeconomic numbers-driven view, let's understand factually how unequal are we on the measure of income (earning power) inequality. Should we worry and under what circumstances? How have incomes grown between 2005 and 2014 based on real survey data and disaggregated across different segments of society, what is it that those who earn more have compared to those who earn far less, how much of this can we attribute to welfare schemes, and what is the way forward?

Fed up with macro-data-driven or, worse, fact-free debates on different parts of the inequality beast, People Research on India's Consumer Economy (a not-for-profit research centre) conducted a

one full year – in this study for 2013/14.

So just how unequal are we in terms of what we earn? Is it getting worse or better?

Sixty-three million households have about half of India's household income, 46 per cent to be precise. (On the upper bound, if we were to do this analysis by total household income and not per capita income, the share of income would have been over 50 per cent.) Unlike the automatic assumption we usually make that these will be urban households, 45 per cent of them are rural.

Has income inequality changed significantly in the last decade? Not really, as the data shows.

During 2005-14, approximately a dec-

ade, it hasn't been all bad. We will end up with five years of high GDP growth, two years of not-bad growth, and two years of below par growth – averaging above 7 per cent. The resultant increases in real annual income in the poorest 20 per cent households has been over ₹50,000 and that of the 20 per cent of households just above it, almost ₹1 lakh.

What is more heartening is that only 44 per cent of the total household income that was added between 2005 and 2014 went to the richest 20 per cent and that isn't really such a worrying number at all given how unequal our living conditions and access to market institutions and public goods are. Even better is that the next three income quintiles (or 20 per cent bands of income) captured 50 per cent of the additional income generated during this period.

While the richest 20 per cent (Quintile 5 or Q5) have continued to be the biggest and most disproportionate gainers, the next 20 per cent (Q4) are losing the income capture game. Their distance from Q5 is far more now than it was in 2004/05. Q3 and even Q2 gain at their expense.

Has the income grown sufficiently for everybody across the board to improve their surplus income or what is left over after expenditure, both routine and not? Not significantly except for the richest 20 per cent who have grown far more secure. The poorest 20 per cent continue to spend more than they earn and the 20 per cent above them barely balance their income and expenditure. Aspirations to consume and new 'must have' necessities of living have grown at the same pace as or faster than income, hence not improving financial health. They need to be supported with direct or indirect boosts to their income.

Is MNREGA and more of the same the way to go? All evidence points to the answer "no". First, the amount of money distributed per household if calculated is far lower than the income increases that have occurred. We all fall into the trap of noticing large aggregate spends and not noticing the fact that there are a large number of

beneficiaries getting a little bit each – exactly like India's economy, which is a large economy of lots of modest income people. Secondly, our data shows that of the poorest 20 per cent of the households, less than two in five have been able to get the MNREGA benefit. About 25-30 per cent of the next three quintiles of income earners claim to have availed of the benefit and 13 per cent of the top quintile of households also claim to have benefitted. Targeted subsidies using direct benefit transfer to bank accounts may help but it's also a high-tech way to perpetuate the same thing.

Why do those who earn more, earn more? Here's where we all know the answer but refuse to see or say. It is the elephant in the room. But if data is needed to prove it, here is some data.

Simply, people who are better educated earn more. The education system is broke, and does not serve the poor at all. The discontinuous earning of the top 20 per cent is reflected in the discontinuous education they have attained.

If that problem is too much to fix as people suggest it is, then the option is to provide jobs which utilise them in as-is where-is condition. That's called non-agricultural labour and 62 per cent of the poorest quintile of households earn their livelihood this way, and the wages are better than those in agriculture at this low level of subsistence. So it is suggested that a construction boom can boost incomes a bit more at the bottom of the income pyramid. But is providing value-added work the best we can do?

Capital intensive, modern, state-of-the-art manufacturing won't boost that many incomes of that many people even if you look at suppliers and ancillaries and other related facilities that it spawns, including service facilities.

As for skill-building, all communication today makes the "you can get a job"



promise. This makes people say, and rightly so, I want an office job. The focus of skill building should instead be towards saying "you can have your own business and grow it". If there aren't enough organised sector jobs to absorb them today (and by the way the same goes for very high-end CEOs as well), at least we can tap into the tremendous entrepreneurial energy, learnability and enthusiasm that young India has demonstrated and create organised ways to support them. Our book, *A Never-Before World*, describes the energy of this kind that is visible in urban India, especially in large cities. What is needed is financing of wannabe truck owners (today cleaners with lowly-paid jobs), caterers or small eating kiosk owners (*thelawalas* in fear of the police), or stay-at-home family cooks, laundry oper-

LET'S STOP THINKING IN CONCEPTUAL SILOS.
LET'S FOCUS ON DOING whatever we can to help
 people help themselves earn more — make big bold
 moves and let small entrepreneurs flourish

ators (today *dobhis* who iron on the roadside or in houses), trained nurses who can come together to set up a home care services company, and so on.

But our efforts on financial inclusion have neither focused on them nor specifically included student loans in large enough numbers for people to get skilled (also, it has not hugely funded skill building institute entrepreneurs). This is where skilling missions have failed us so far — the skilling ecosystem has to be built in its entirety and with a strategy in mind to achieve a thought-through outcome. We know that the only way things work in India is if we enable people to find their way. Let's put the cart before the horse for a change. If enough people with skills exist, online exchanges will mushroom and

aggregators will provide shared services. It isn't difficult — but it isn't something the corporate mindset can think about. As the organised sector develops, it may pay a premium to acquire these aggregations of skilled workers.

Let's stop thinking in conceptual silos. Let's focus on doing whatever we can to help people help themselves earn more — make big, bold moves and let small entrepreneurs flourish.

The decrease in "power distance" of the Indian society that we have been noticing is also a big boon. Demanding more wages is happening more now than before. MNREGA set a new benchmark for wages and while some sigh about becoming a high-wage economy, it seems a far more useful way to build an equitable society than through handouts.

How do the people of India think about income inequality? They worry about fairness and improving their own lot. They want their children to have far more opportunities than they do today or their parents did, so that they can earn and live disproportionately better. They want entertainment, leisure, and family life to improve. Talk to them and they are not asking, "Why do you have a Mercedes car and send your child abroad to study?" They are asking, "Why can't my child go to college and get a well-paying office job which is permanent?" and "Why can I not have running water, my own toilet and not have seven people to a room?" What is the equality being sought? Equality of opportunity to go up in life and improve your condition. Equality of getting a basic good education and timely health care and an equal opportunity for talented children to realise their potential and access to public recreational facilities. China has provided many of these without worrying about income inequality. In India, the state hasn't done so and has abdicated its role in providing these facilities, forcing poor people to pay more to private providers.

The road we are on leads to a more income equitable society. We don't need an about turn. We need more road work. We need to work more on the road. ♦

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MADHYA PRADESH FUELLING THE NATION

Madhya Pradesh has scripted a remarkable success story under the leadership of Chief Minister Shivraj Singh Chouhan. The state has made rapid strides in all sectors ranging from infrastructure to agriculture, education, women empowerment, power and energy to food processing industry. This centrally located state has outperformed other states to record an impressive 11.08 per cent growth in its gross state domestic product (GSDP) in 2013-14. A consistent performer, the state has been showing a strong growth of above nine per cent since 2009-10, riding largely on high growth in the agriculture and allied sector, supplemented by expansion in the services sector.

SHRI SHIVRAJ SINGH CHOUHAN
Hon'ble Chief Minister of Madhya Pradesh



MP RADESH ON'S GROWTH

Thanks to additional irrigation facilities created in the state, Madhya Pradesh now takes the second place, next to only Uttar Pradesh, in food grain production in the country, while it has seen encouraging growth in non-food crops, especially oilseeds. The irrigated area in the state has quadrupled to 28 lakh hectares, as availability of surplus power has facilitated tube well irrigation. The dynamic Madhya Pradesh CM, acknowledged as a leader with out-of-the-box thinking, has laid stress on the all-round development of the state. Due to favourable business environment, stable governance and a highly skilled workforce, a number of companies, both national as well as international, have set up their base in Madhya Pradesh. The turnaround that the state has achieved under Chouhan was acknowledged by Prime Minister Narendra Modi at the 4th Global Investors Summit held in Indore in October 2014. Eminent corporate heads echoed the same sentiment. The achievements of the chief minister and the advancements made by the state in the field of science and technology, IT and other sectors were highlighted at the summit. No wonder, Madhya Pradesh, once a BIMARU state, is today India's fastest-growing state..

As the state is making an incredible contribution to the GDP of the country, the path breaking initiatives of the chief minister have made him a popular figure among the people of the state whom he is serving for the second term. The present government has rolled out a number of schemes and has also implemented numerous policies in the following diverse areas, which have gone a long way in unlocking the state's potential for inclusive economic growth wedded to social concerns.

■ FILLIP TO INDUSTRY AND EQUIPPING YOUTHS WITH SKILLS

Chief Minister Shivraj Singh Chouhan has given top priority to boost the industry and to skill up the youths to meet the demands of industries coming up in the state. He has implemented Mukhya Mantri Yuva Udyami Yojana to facilitate youths to set up their own industries. Under this scheme, loans ranging from Rs 10 lakh to Rs 1 crore are provided. The government would provide 15 percent of the capital investment on the project as margin money. Besides, interest subsidy at the rate of 5 percent per annum and guarantee fee for 7 years is given to the entrepreneurs. To encourage innovative idea based enterprises, the state government has set up a Rs 100 crore Venture Capital Fund. The Chief Minister wants to lay a network of small and cottage industries across the state. It has been decided to support such entrepreneurs with technology, proper marketing and assistance for quality improvement.

■ SKILL DEVELOPMENT

To cater to the requirement of technically trained hands for the industries coming up in the state, an ambitious Skill Development Programme has been implemented. It assumes greater significance due to the fact that arrangements have been made to ensure 50 percent jobs to the locals in the industries to be set up in the state. For this a Madhya Pradesh Vocational Education and Training Council has been set up. The Council has already registered 200 vocational training providers. In last academic session alone, 13 new ITIs and 21 polytechnic colleges were opened. Besides, Skill Development Centres have been started in 113 development blocks that lack technical training facilities. The training courses

at these centres are in tune with local requirements.

A computer training scheme is being implemented for the youths of the Scheduled Castes and the Scheduled Tribes. Under this, job-oriented training is provided to the youths who fail to continue their education after middle or secondary education due to some reason.

MADHYA PRADESH ACHIEVES TARGET OF PM JAN DHAN YOJANA

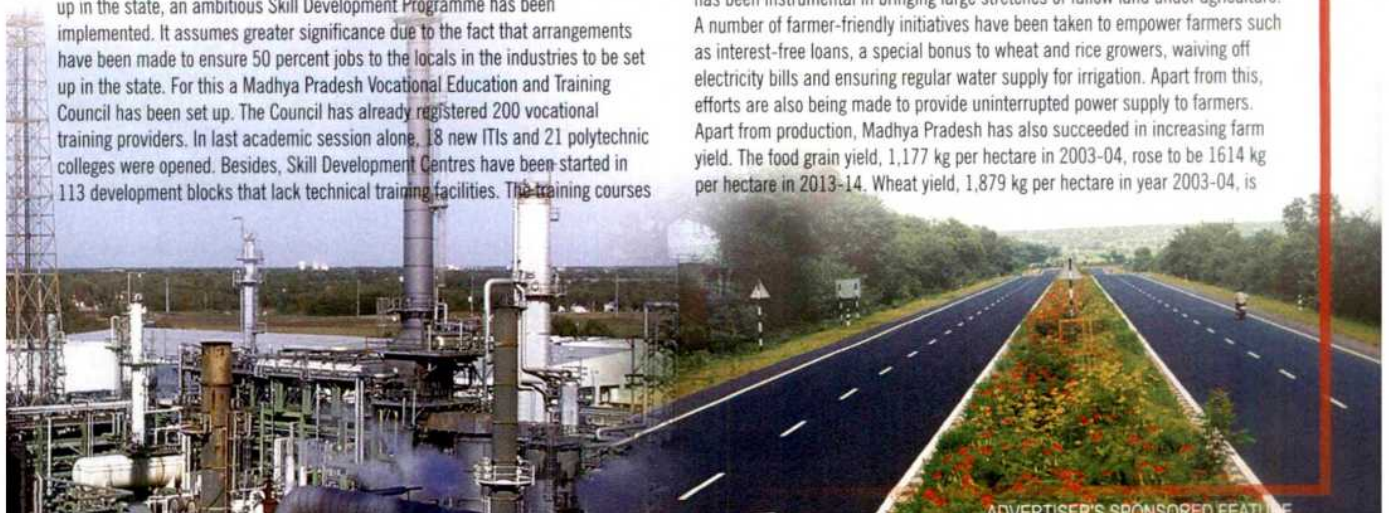
Madhya Pradesh has achieved the target of opening minimum one bank account of the families which do not have the same.

Pradhan Mantri Jan-Dhan Yojana was launched simultaneously in the country on August 28, 2014. Under the scheme, January 26, 2015 was fixed as the last date for achieving cent percent target. Madhya Pradesh has achieved this target way before on November 30, 2014. In a survey, 49 lakh 47 thousand 637 families having no bank account were identified. These families have been linked with banks by opening their accounts. In all, 61 lakh 80 thousand 633 bank accounts were opened under the scheme. Chief Minister Shri Shivraj Singh Chouhan had been intensively reviewing implementation of Pradhan Mantri Jan-Dhan Yojana from day-one. During 155th meeting of State Level Bankers Committee also he had reviewed progress of the scheme and directed that the target must be achieved positively latest by December 31, 2014.

Of the total bank accounts opened under the scheme, 48 lakh 28 thousand 105 are in rural and 13 lakh 52 thousand 528 bank accounts in urban areas. In the state, financial inclusion model (Samridhi) is already being implemented since 2011, which has also helped in achieving the target. Under this model, over 2400 ultra small banks have been opened in the state so far having over 76 lakh 50 thousand bank accounts. These banks have transacted business of Rs 1800 crore so far.

■ BOOSTING AGRICULTURE

The state has made a remarkable turnaround in the agricultural sector. Today it is the second biggest wheat producing states in India just after Haryana. The state has been instrumental in bringing large stretches of fallow land under agriculture. A number of farmer-friendly initiatives have been taken to empower farmers such as interest-free loans, a special bonus to wheat and rice growers, waiving off electricity bills and ensuring regular water supply for irrigation. Apart from this, efforts are also being made to provide uninterrupted power supply to farmers. Apart from production, Madhya Pradesh has also succeeded in increasing farm yield. The food grain yield, 1,177 kg per hectare in 2003-04, rose to be 1614 kg per hectare in 2013-14. Wheat yield, 1,879 kg per hectare in year 2003-04, is



likely to be 2,602 kg per hectare this year.

Madhya Pradesh has also achieved the highest ever agriculture growth rate in the country. The agriculture growth rate was 19.85 in 2011-12, which increased to 20.16 in 2012-13. The state recorded agriculture growth rate at 24.99 percent in 2013-14. Significantly, it achieved 9.04 percent agriculture growth rate against the target of 2.5 percent fixed for 11th Five-Year Plan (2007-11). The state has bagged a number of awards for its excellence in agriculture. These include the prestigious Krishi Karman, for last 2 years in a row. The state has also bagged Agriculture Leadership Award on the recommendation of an expert committee headed by noted agriculture scientist Dr M.S. Swaminathan.

■ INFRASTRUCTURAL DEVELOPMENT

In an effort to showcase Madhya Pradesh as an ideal investment destination, a number of initiatives have been taken to strengthen the infrastructure of the state. In last 10 years about 95,000 km length of roads has been constructed and upgraded. Also, fourlaning of roads has been given due importance. The government has acted speedily in the implementation of Pradhan Mantri Gram Sadak Yojana, completing 56,917 km length of 12,363 roads at the expenditure of Rs 13,782 crore. In a unique initiative, the state government has implemented Mukhya Mantri Gram Sadak Yojana (MMGSY) to cover the villages that are left out under PMGSY norms. Under the MMGSY, construction of 19,386 km long 7575 gravel roads have been achieved at a cost of Rs 3,634 crore. The scheme covers general villages having up to 500 population and tribal villages with less than 250 populace. In yet another novel scheme Panch-Parmeshwar Yojana, all weather internal roads are being constructed in villages to rid them of mud and squalour. So far, construction of 5574 km long roads has already been completed. From this year a Mukhya Mantri Khet Sadak Yojana has been introduced to link the agricultural fields to roads.

■ FROM A POWER DEFICIT TO A POWER SURPLUS STATE

Earlier, the power scenario was quite dismal in the state but the Shivraj Singh Chouhan government has taken a number of steps to augment the power supply in the state. The power availability which was 4,773 MW in 2003-04, now stands at 13,000 MW. With this, Madhya Pradesh has got the distinction of becoming a power surplus state. Power generation will further increase to 14,834 MW by year 2014 and 20,000 MW by 2018. The transmission losses have been reduced from 7.93 percent in 2003-04 to 3.30 percent now. The country's largest solar energy plant has come up at Neemuch district which would supply 130 MW. Besides, generation of 1805 MW has already started by the power plants established with private investment.

■ INTERLINKING RIVERS FOR THE GREATER GOOD

One of the major achievements of the Shivraj Singh Chouhan government is to work towards realising the river-interlinking dream of former prime minister Atal Bihari Vajpayee by implementing the Narmada-Kshipra Simhastha Link Project. The project which was completed in a record short time would not only provide adequate water for the Simhastha fair at Ujjain in year 2016 but would also supply water to industries in Ujjain, Dewas, Pithampur, Nagada and Sanwer besides providing drinking water to over 150 villages and Ujjain and Dewas cities. Madhya Pradesh has also inked a tri-partite MoU with government of India and Uttar Pradesh governments for Ken-Betwa River Linking Project. The project has already received nod of the Central Government and it is likely to clear other hurdles shortly.

■ DRINKING WATER FOR ALL

The present government has, by and large, been able to overcome the shortage of drinking water in the state. So far, out of 1,27,559 habitations, 98,500 have

already been provided the facility of drinking water at the rate of 55 liter per head. This year, the same is being arranged for close to 14,000 habitations.

The state government has set a target to provide drinking water through domestic connection to 75 percent consumers by 2022. It has constituted Madhya Pradesh Water Corporation for speedy implementation of surface water based drinking water supply schemes in view of fast depleting ground water level.

As many as 25 group drinking water schemes have been sanctioned for 889 villages in 19 districts in the first phase.

There are 5.21 lakh hand pumps in rural areas of the state. Of these, over 2 lakh were installed during last 10 years.

In villages with a population of 500 to 1000, Mukhya Mantri Drinking Water schemes has been implemented since 2010-11. So far, 3587 schemes have already been completed and work on another 559 is in the progress.

■ VILLAGE MASTER PLANS

Today Madhya Pradesh has master plans of all its 50,982 villages in place concretising the concept of decentralised planning. It is the first state in the country to do so. The state government has issued directives to all district collectors for implementation of these master plans. They have also been asked to chalk out district plans for year 2015-16. It has been directed to give top priority to works suggested by villagers failing which their plans would not be sanctioned. These master plans include about 12 lakh works approved by the Gram Sabhas. Of these, 39 percent pertain to infrastructure, 18 percent to livelihoods, 15 percent to health, 10 percent to civic rights and protection, 8 percent to agriculture, 7 percent to education, and 1 percent works pertain to energy sector.

A huge exercise was taken up to prepare master plans of all the villages. Over 1 crore 95 lakh villagers, 1250 voluntary institutions, over 50,000 public representatives, 10,400 technical support teams and 62,400 field staff have actively participated in it. Priority has been given to providing basic amenities especially drinking water, all weather roads, education and health facilities and food security in the master plans.

GOOD GOVERNANCE

The Shivraj government has given exemplary account in providing good governance. The Chief Minister has been taking one innovative initiative after another to rid the administration of sloth, incompetence and corruption. The Public Services Delivery Guarantee Act has provided great relief to the common people. The Act provides for delivery of public services within a time limit failing which the concerned government servant is liable to be fined at the rate of Rs 250 per day. The amount thus realised is given to the aggrieved persons. As many as 102 services of 21 departments have been brought under the ambit of the Act. Of these, 47 services of 16 departments are can be accessed online.

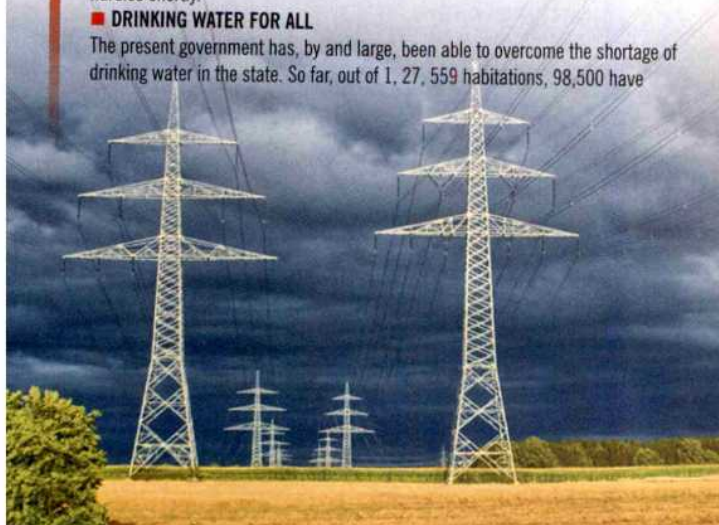
This legislation has developed a new work culture in the state. Over 2.75 crore applications have been disposed off within the specified time limits under the said Act.

In yet another innovative measure, the state government has done away with the practice of submission of affidavit by people for various purposes. Now a self-certified declaration on plain paper suffices. There is no need for a stamp paper and notarisation.

The state government has also saved the students the inconvenience they faced in getting their documents attested by a gazetted officer.

Making the best possible use of Information Technology, the Chief Minister has taken a number of initiatives, the latest being the CM helpline-181. Through this any complaint can be registered telephonically. The Chief Minister himself talks randomly to some applicants to get the first-hand feedback.

Richly endowed with mineral and natural resources, Madhya Pradesh is one of the well-managed states in the country today, not only in terms of administration but finances a well. Shivraj Singh Chouhan's focus for the future is clear – to develop MP into one of the most developed and richest states of India. The unprecedented popularity of the chief minister has not only raised his stature in the eyes of the people of the state but has also paved the way for Madhya Pradesh becoming a model state for inclusive development.



MEASURES IN THE SOCIAL SPHERE

■ FOOD SECURITY

Food security is a major problem being faced by the country. However, credit should be given to the chief minister for solving the problem, to a large extent, in the state.

The state government has provided food security to about 5 crore out of 7 crore population of the state. Taking the lead, the Shivraj government started the Annapurna Yojana to provide highly subsidized food to the poor when it was at discussion level at the Centre.

The state government is providing wheat, rice, sugar and iodized salt at Re one a kg. It has also widened expanded the scheme as a result of which now 110 lakh 38 thousand families are beneficiaries of the scheme.

■ SECURITY TO LABOURERS

The government has taken concrete steps to provide social security to farmers. In this regard, a number of initiatives have been taken such as the introduction of Mukhya Mantri Majdoor Suraksha Yojana in October 2007. Under this, landless farm workers of 18 to 60 years of age are provided various facilities like paid leave of six months in case of delivery of woman, paternity leave of two week, scholarship to their children from class I to postgraduate level, cash award to their children on passing the V class exam in the first division, assistance for marriage of daughters and other benefits. So far, assistance to the tune of Rs. 156.75 crore has been provided to the beneficiaries under the scheme.

■ SUPPORTING THE DIFFERENTLY ABLED

The government has lent a helping hand to the differently abled persons. During the last year a survey was conducted which identified over 8.5 lakh such persons. Database of all these persons has been prepared. A Sparsh Portal prepared for this purpose has won the E-Governance National Award for the year 2012-13. Apart from certificates, pension and various other facilities, posts have been earmarked for these physically challenged persons and the process is on to recruit them in different departments. As many as six ITIs have been established exclusively for upgrading the skills of these people.

■ SINGLE WINDOW CLEARANCES

In order to provide an umbrella for all social security and social justice programmes, a Samagra Samajik Suraksha Mission has been launched in the state. Under this, benefits of the different beneficiary oriented schemes are being rationalised and efforts are being made to benefit the people through a single window. The work done towards direct benefit transfer through financial inclusion in the state has been widely recognised and appreciated.

■ EMPOWERING THE GIRL CHILD

Launched in year 2006, the Ladli Laxmi Yojana aims at bringing about a positive change in the mindset of people towards the girl child and to ensure better upbringing of daughters thereby securing them a reasonably good future. Under the scheme, at the time of birth of a girl child National Saving Certificate of Rs 6000 is purchased annually for five years by the state government. The scheme has been linked to their education. A certain amount of money is given to her at various stages during her education. On attaining 21 years of age, she would get a lump sum amount of Rs 1.18 lakh if she does not marry before 18 years of age. So far, 17 girls have been covered under this novel scheme.

Realising the discrimination to the girl child, the government has

decided to put an end to it. It is, therefore, making all-out efforts to enhance social awareness about the need and importance of not only saving and protecting the girl child but also to ensure her a good upbringing as well as fair opportunities to live up to her potential.

During the campaign organised by the state government, religious preachers, teachers, political and social leaders, other dignitaries in various fields who play an important role in opinion making, have been roped in to create the favourable environment for girls. The Chief Minister himself has been holding road shows, spreading the message of Beti Bachao (Save the girl child). The government finds it is encouraging that the message of the movement has been well received in society.

■ BRINGING DIGNITY TO STREET VENDORS

Street vendors face harassment on a daily basis. In order to save the street vendors and hawkers from the humiliation and harassment of being pushed around, the state government has enacted a legislation for earmarking the points for them to run their petty businesses with dignity coupled with a sense of security. They are being issued identity cards and would be provided Rs 5000 as assistance of which Rs 2500 would be subsidy to improve their businesses. Similarly, Kotwars, Hammals, Tulavatis and other daily wage earners have received the benefits of a number of schemes launched for them. The Kotwars or village watchmen have been covered under Jan Shri Insurance Scheme. They have been provided bi-cycles and credit cards.

■ MARRIAGE ASSISTANCE FOR POOR FAMILIES

The government has launched the Mukhya Mantri Kanyadan Yojana, under which marriages of girls of poor families are solemnised at government expenditure. So far, about 3 lakh girls of poor families were married under it. The assistance provided under this scheme has been increased from Rs 10,000 to Rs 25,000 this year. The scheme covers girls of marriageable age from poor families, widows and abandoned women. Panchayats, urban bodies and registered voluntary institutions are authorised to organise mass marriages under the scheme.





BT ANNIVERSARY **2015**



By
Adil Zainulbhai

ABOUT: Adil Zainulbhai's appointment to head the Quality Council is among the first reach-outs by the Modi government to the private sector for talent. The former chairman of McKinsey India with expertise in telecom, infrastructure, high-tech and financial services, believes quality is an imperative for India. An IIT Bombay, Harvard Business School alum, he sits on the board of Reliance Industries

ILLUSTRATION BY AJAY THAKURI

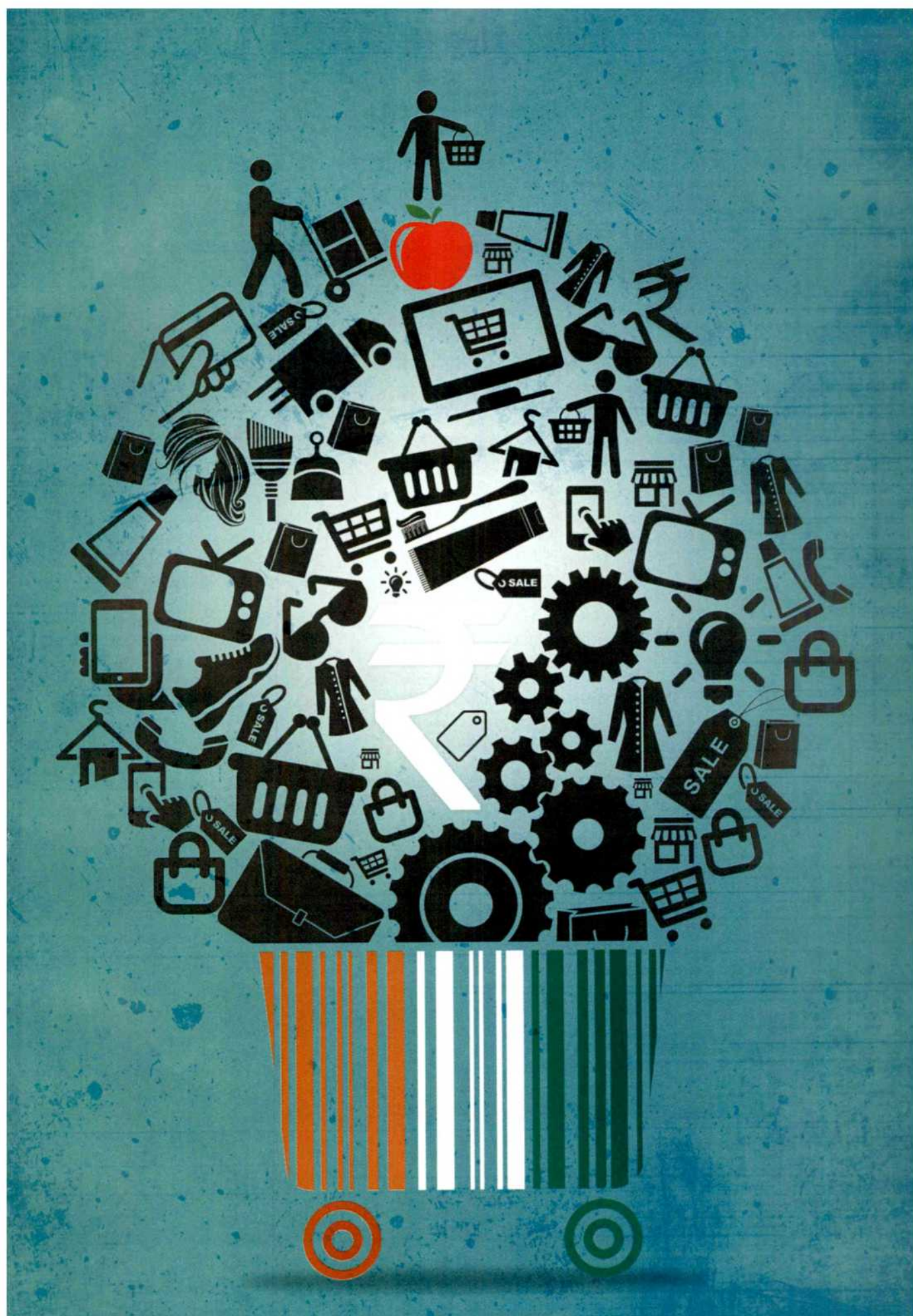
QUALITY

India has to break out from its low-quality past and embrace quality in the next stage of its growth

LOOKING BEYOND *CHALTA HAI,* *JUGAAD*

Long seen as some sort of an esoteric idea, the importance and embedding of quality into goods, services and now governance can no longer be undermined. We are at the cusp of a quality revolution that sees it not only as an economic necessity but a political statement, through the "Make in India" campaign, as well. If one leg of the campaign is investments and jobs, its other leg is quality.

Some of the highest quality software in the world is being written in India, world-class cars and two-wheelers are being built in India, and, of course, some of the best sarees and woven fabrics



TO ACHIEVE THE GOAL OF "MAKE IN INDIA" AND "BETTER GOVERNANCE, LESS GOVERNMENT", we need to fundamentally improve the quality of our products and services... To get to the next level of growth, we have to fundamentally improve quality at every level

in the world are being made in India. But, by and large, if you ask the average citizen, or the average consumer or average business, the quality of goods and services in India lags that of many other developing countries like China, Malaysia, Thailand and, of course, many developed countries such as Japan or Germany.

To achieve the goal of "Make in India" and "better governance, less government", we need to fundamentally improve the quality of our products and services. In the past, we made a virtue out of necessity by celebrating *chalta hai* and *jugaad*. To get to the next level of growth, we have to fundamentally improve quality at every level. It is not just product quality that needs to be improved; with 60 per cent of its GDP coming from services compared to 15 per cent from manufacturing, we need to improve the quality of services as well.

As consumers, we have a natural inclination to look to the government for everything, but the best quality comes from voluntary adherence because it makes business sense to do so. In that context, the architecture of quality in India has to have two thrusts. One, mandatory standards that ensure products and services do not endanger national security, health, safety or the environment. These standards also ensure that no deceptive trade practices take place. There are certain sectors which are liable to regulation like food, drugs, electrical appliances, etc. Most countries have a set of standards they legislate and enforce. I refer to these

as "minimum" standards.

And two, voluntary standards that serve to achieve the highest quality. Under these, the industry comes together to agree on a set of standards which then it chooses to follow. These are the norm in most industry sectors other than those regulated, and even in regulated sectors, these are prevalent and often much higher than mandatory standards. I refer to them as "maximum" standards.

To make these work, we need a quality infrastructure that includes:

1. Standards setting bodies for mandatory standards, typically the regulatory bodies like the Food Authority or the Drugs Controller.
2. Industry-driven national standards bodies, the Bureau of Indian Standards (BIS) that create and follow best practices on a voluntary basis.
3. Inspection or certification bodies and laboratories – the conformity assessment bodies in government or private sectors.
3. Accreditation body to attest competence of conformity assessment bodies NABCB [National Accreditation Board for Certification Bodies] and NABL [National Accreditation Board for Testing and Calibration Laboratories] in India.
4. Metrology to ensure reliable measurements – the National Physical Laboratory.
5. Training and counselling bodies to help improve quality in companies.

Many of these exist, but the overall effectiveness compared to our aspiration is low. So it requires a massive ramp up (especially, of training and counselling) to meet our goals. China is committed to a 10-year programme with more than \$10 billion in investments to meet the quality standards of Japan and Germany. On our part, in addition to its work in health-care, conformity assessment, education and other areas, Quality Council of India (QCI) will start two major initiatives.

One, improve quality in the small and medium enterprises (SME) sector and try to reach at least one million of the 45 million SMEs. While large companies have taken on the challenge of improving quality because of international requirements, SMEs have not focused on quality. However,

they are critical to the overall mission of "Make in India" and "Zero Effect Zero Defect". QCI has worked with various industry bodies such as CII, FICCI and ASSOCHAM to help SMEs. What's missing is dramatic scale-up. Technology may give us the required push here.

And two, improve the quality of government services for the citizen. While 20 states have passed legislations on guaranteeing public services, most have not done much to implement it. If we could systematically set standards for citizen services, track performance, transparently share the data, train the providers of these services to adhere to the standards and deliver, it would be boon to the citizens through a huge improvement in quality and productivity. Of course, this means working with states, municipalities, districts and panchayat, but in terms of outcomes, the payback would be enormous.

Technology can help dramatically in

simplifying these tasks. An example: the Karnataka government recently launched a single e-governance app for various services like income tax, weather forecast, bank accounts and traffic management. Smaller islands of technology adoption for e-governance are increasing. The labour department is going to one form of four pages on a portal instead of an 88-page form, and putting all inspection reports online in 72 hours, for instance. Or making the entire application process for passports online. Can we do something similar for a whole series of other citizen services across India?

There is a lot of work to be done to improve quality in India, but with the right leadership and drive from the top working in tandem with a systematic programme, we can make a big difference in both the growth of the economy and the improvement in the lives of our 1.2 billion citizens. ♦



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BT ANNIVERSARY **2015**



From
the Editor

A

s we come to the close of 2014, there are enormous expectations building up about what the New Year will bring. The new government led by Narendra Modi has been in office for just over six months, and it has certainly made the right noises about many issues. It was voted to power because it promised change from the lethargy and pessimism that had come to characterise the last few years of the Manmohan Singh-led government. There was a general feeling that things needed to move forward and decisive action had to be taken in a host of areas, if India was to take its rightful place in the world. Most people are hoping that they will see the decisive action in 2015, now that the government has settled down, and has had time to study the problems that are holding India back.

When Modi was campaigning for the general elections, one of the things that both his critics and supporters agreed on was that he was an excellent administrator and, in general, had great execution strengths. The unsaid implication was that he was perhaps not as great in providing a grand vision or coming up with breakthrough ideas.

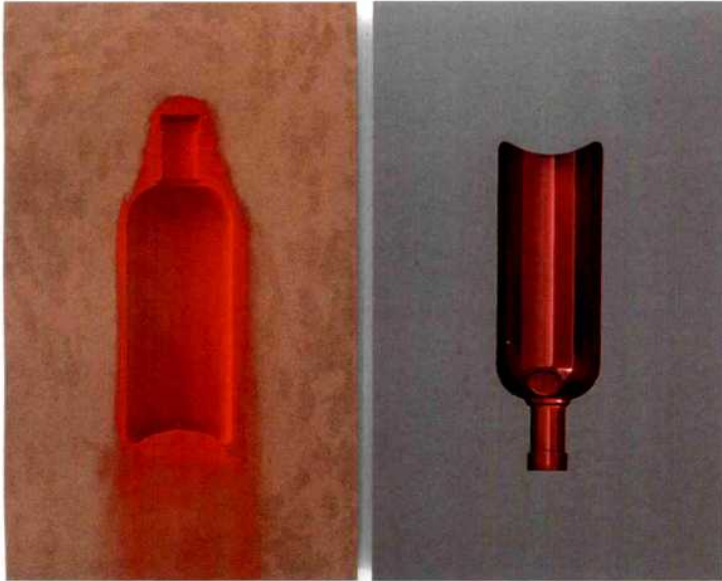
Since coming to power, the prime minister has shown that he is not afraid to think of big ideas – witness his Make in India programme. But there are a number of other areas where equally big ideas and radical thinking is needed. The entire education system needs to be overhauled – not just tinkered with – if we want to ensure that the youth who will join the workplace in the next 20 years are actually employable in any industry. The Make in India programme will be a non-starter unless serious thought is given to quality improvement and making it the cornerstone of all our manufacturing and service initiatives. Health care needs to be thoroughly revamped if our workers are to remain productive. Urbanisation needs some serious rethinking if we want to avoid a few big cities becoming nightmares. And agriculture needs fresh ideas to break out of the straightjacket it finds itself in.

Of course, big ideas and new thinking are not the only things necessary to correct the wrongs of the past. Detailing, implementation and execution of those ideas will be the key difference between success and failure. In the past, many of the country's leaders have stumbled because they could not bridge the gap between good intentions and actual action on the ground. This prime minister, probably more than any of his predecessors, has a real chance to turn things around. He has won a historic mandate, he has shown his ability to think out of the box, and most important, he has a well-deserved reputation for efficient administration. That is why all eyes will be on his decisions and actions in 2015.

Here's hoping that 2015 will be the year everyone expects it to be. And wishing all our readers a very Happy New Year.

Prosenjit Datta

prosenjit.datta@intoday.com
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01 ANISH KAPOOR

Anish Kapoor captures the essence of the Absolut bottle through a bold statement of minimalism that redefines the possibilities of the banal.



02 VIKRAM SETH

Vikram Seth's homage to the many forms of the iconic Absolut shape shows itself in three distinct artistic expressions.



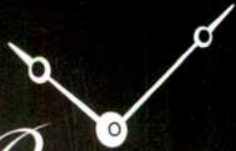
03 SUBODH GUPTA

Subodh Gupta's Absolut masterpiece depicts the transformation of everyday objects into something truly extraordinary.

From Andy Warhol to Anish Kapoor, Absolut is a shape that has always inspired the world's great artists. This is a tribute to collaborations that became legends, a toast to visionaries who shaped the world.

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WHY **GAUTAM ADANI** IS
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Bramhkumaris Ashram, Mount Abu using Solar Steam for Community Cooking



Honeywell Technology, Hyderabad using Solar Heat through VAM for Space Cooling

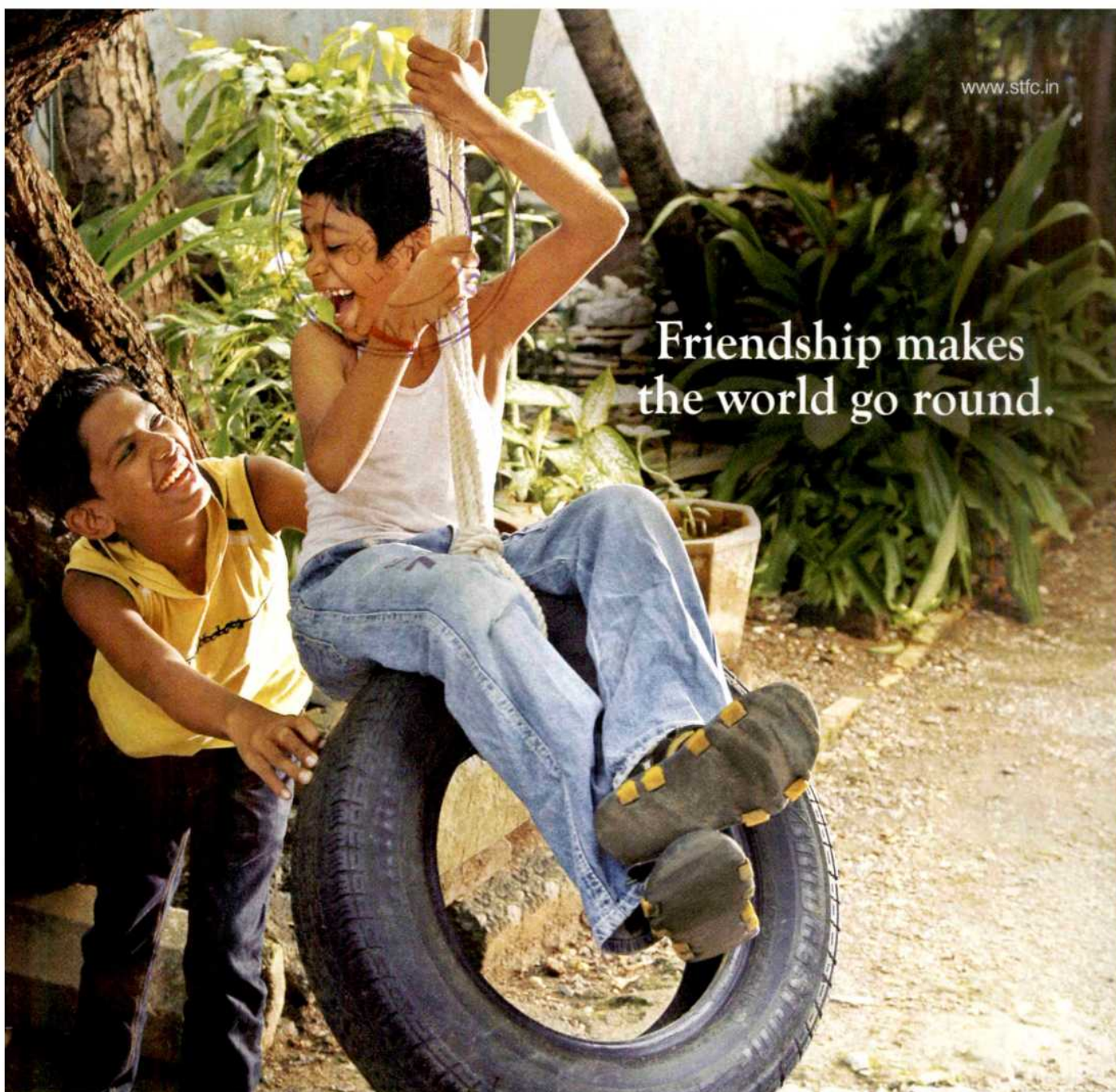


Gajraj Cleaners, Ahmednagar using Solar Steam for laundry

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From the Editor

Risks and Rewards

Gautam Adani is hardly afraid of taking risks. If he were, he wouldn't have dropped out of college to become an entrepreneur. Or embarked on building a greenfield port in Gujarat in the mid-'90s, despite having no experience in the infrastructure sector till then. In fact, Adani has built his ₹56,225.86 crore in revenues empire by taking enormous risks. Today, the Adani group is one of the biggest infrastructure players in the country, with interests in ports, mining and power.

Even by his standards though, the bet he is taking on the Australian coal is huge. He is spending upwards of \$10 billion (₹60,000 crore) on this ambitious operation – which will see him developing a coal mine, building a railway line to transport that coal to the port which he has bought in Abbot Point, Queensland, and then shipping it to India largely for his own power plants. He is taking on enormous debt, and he is battling myriad opponents in Australia to make his dream come true.



His Australian play – if it succeeds – will catapult him into the global league of infrastructure players. But to make it succeed, Adani needs not only superb project management skills but also a big dollop of luck. The last time he took a bet on coal mines in another country, it did not work out too well for him. Adani had picked up mines in Indonesia, expecting the coal mined there to feed his power plants in India. Unfortunately, the Indonesian government changed its rules of coal exports, and that made the Indonesian coal unviable for him. Will his bet in Australia succeed? Our cover story this issue looks at exactly what Adani has taken on Down Under

and what needs to be in place for him to pull off his gamble.

This issue also carries our special package on India's Best Banks, a study that we conduct every year with knowledge partners KPMG. For the study this year, we have kept the methodology largely unchanged from last year's. We looked at 65 scheduled commercial banks. Annual results for the past three years were scrutinised for the study. Based on the size of their balance sheets, the banks were classified as large, medium, small and very small. We looked at growth rates, size and strength to come up with our final rankings. To gauge the strength of a bank, we looked at its capital adequacy, quality of assets, quality of earnings and productivity and efficiency.

In the BT-KPMG study, HDFC Bank emerged as the best bank for the second consecutive year. However, competition is nipping at its heels. ICICI Bank, India's biggest private sector bank, came second in our study, losing out to HDFC Bank by a whisper. Aditya Puri, MD & CEO of HDFC Bank, is trying his level best to see that his organisation retains its lead even in the future. He is transforming his bank from a bricks-and-mortar entity to a digital powerhouse. He knows that both the opportunities and threats for HDFC Bank will come from the mobile revolution. To read about what he is doing, turn to page 58.

Prosenjit Datta

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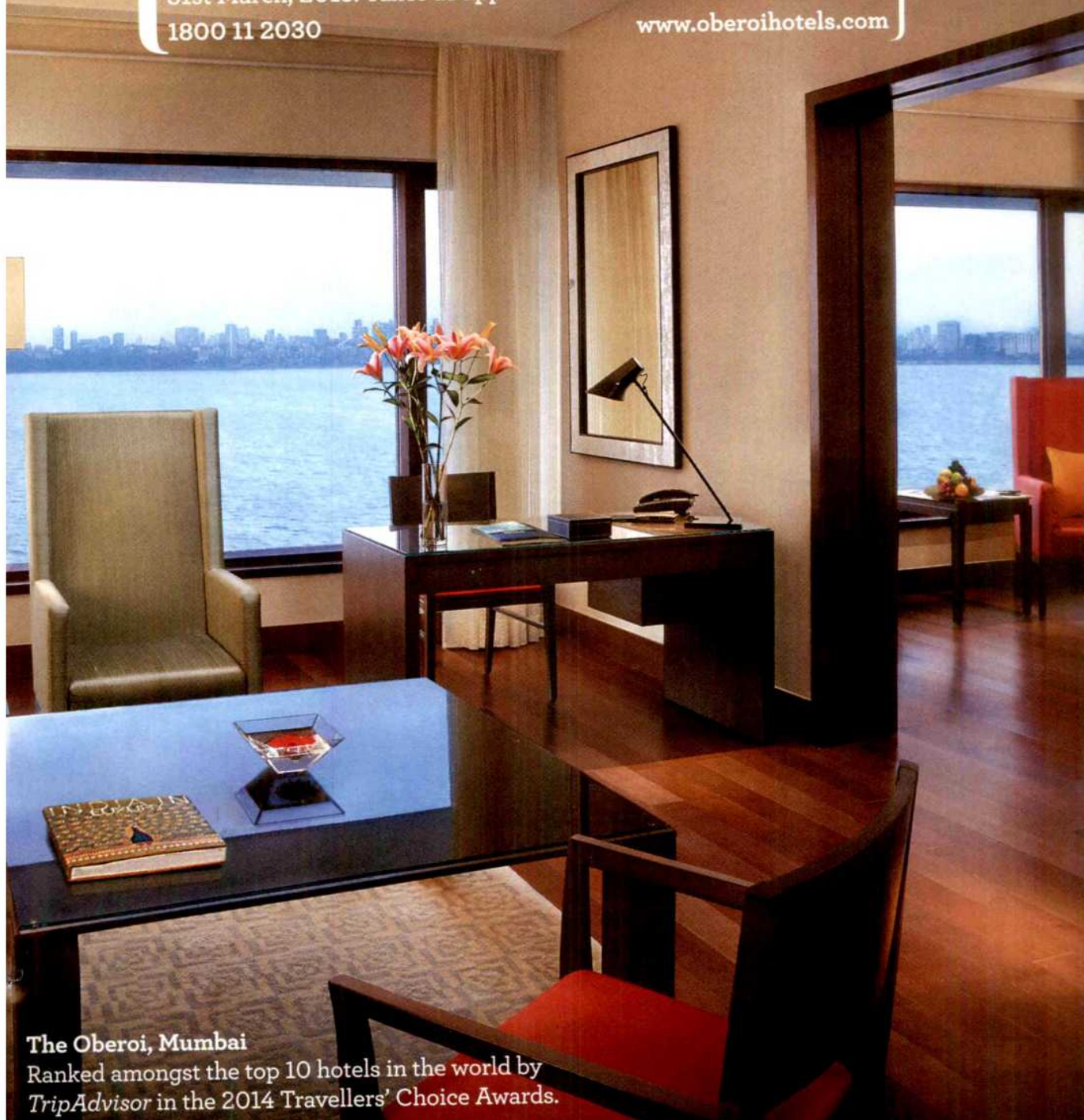
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Re: Letters to the Editor



New Ideas: The Time has come!

This refers to your excellent 23rd Anniversary issue (*Ideas for a New India*, January 4, 2015). All the 21 ideas, expressed by your eminent guest writers, are worth appreciating. New ideas remain critical in debating and determining the future of how we live, work and play. We can get information quickly at the click of a mouse; new scientific

discoveries tell us more about the origins of the universe and of human beings; photographs show us the surface of Mars; and creativity across the arts and media continues to flourish. Such interesting ideas do take time to develop and are not instant successes. We may recall a famous quote by Victor Hugo: "Nothing is more powerful than an idea whose time has come." Yes, the time has come! The powers that be need to sincerely pay heed to all these ideas.

J.S. Broca, New Delhi

Simplifying Tax Laws

This refers to your article on the Indian tax system *Making Levies Less Taxing* (January 4). In order to simplify income tax and wealth tax, an attempt has been made by the government to simplify income tax laws so that taxpayers can easily understand and comply with these laws. But the truth is otherwise. The Direct Tax Code 2013 Bill has 325 clauses, 21 chapters and 23 Schedules. Can a common citizen make anything out of this

voluminous code, sections and schedules? There should not be more than 50 to 60 sections.

Mahesh Kapasi, New Delhi

Bureaucrats Are Major Hurdles

This refers to a column on Indian institutions, *Institutions, Work in Progress* (January 4). The ruling Bharatiya Janata Party is expected to abide by the principles of good governance. The common man looks forward to hassle-free dealings with the staff in government offices, particularly the ones dealing with public utility services. Discharge of such services ought not to be treated as a favour. However, we do not get the results as desired. Mostly, bureaucrats are major hurdles as they don't allow things as it should happen. They always obstruct the way of development by delays and red tapism. The Narendra Modi government must tackle these bureaucrats with stringent punishment.

MK, On e-mail

Send all your comments to: editor.bt@intoday.com

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Government hikes postal life insurance from ₹20 lakh to ₹50 lakh.

Wow! It will be a great help to the rural people, but a Herculean task for other insurance companies.

- P.K. Bastia

Samsung unveils Galaxy Note Edge at ₹64,900.

But who is going to buy it? Is it better than even iPhone 6 or 6 Plus? - Satyabrata Tripathy

WhatsApp to have voice calling feature soon.

Indeed, it will be a big challenge for Viber and Tango. - Biswaranjan Mishra



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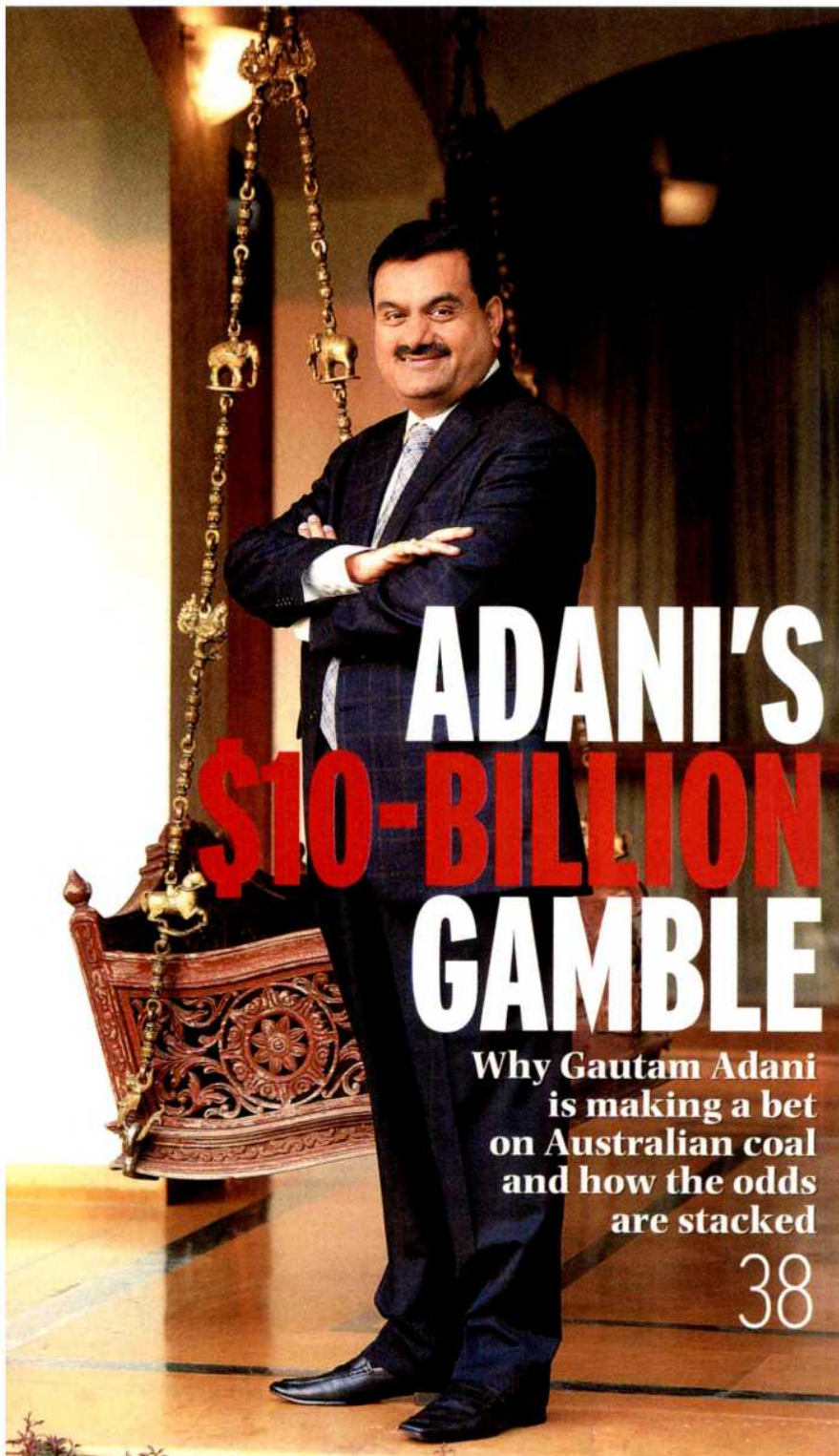
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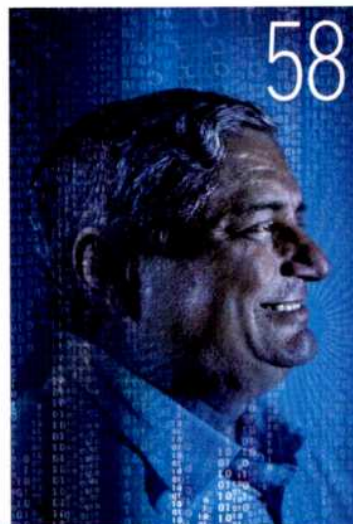
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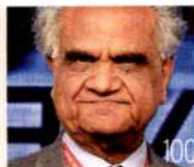
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"Dell is democratising technology"

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"There is a danger when we discuss 'Make in India' of assuming it means a focus on manufacturing, an attempt to follow the export-led growth path that China followed... But the world as a whole is unlikely to be able to accommodate another export-led China"

— RBI Governor **Raghuram Rajan**, in his Bharat Ram Memorial Lecture



"Given his export pessimism, it is no surprise that reforms of myriad labour laws... find no mention on Rajan's otherwise long list of reforms. Our export pessimism then becomes self-fulfilling and we confuse our policy-induced failure to compete in the global markets with their saturation, notwithstanding the fact that the same markets continue to absorb Chinese exports like sponge"

— **Arvind Panagariya**, in a column in *India Today*



Nestlé

Sugar and Spice

Nestle, the Swiss company behind brands like Maggi and KitKat, has vowed to make its products healthier by cutting quantities of sugar, salt and harmful fat, reports the *Financial Times*. Not enough, say health campaigners.



Cock and Bull

Farmers around Ranthambore in Rajasthan complained bitterly to Chief Minister **Vasundhara Raje** about herds of blue bull destroying their crops. Cull them, Raje might have ordered, but her hands are tied. In Hindi, the animal is called *nilgai* — the last three letters of that clearly bestowing a holy status on her, comparable with the neighbourhood cow. With cow worship in vogue these days, the chief minister took the path of safety and escalated the matter to the central government.



One more from the Pope

Pope Francis shows some more reformist zeal. In a pre-Christmas address to cardinals, reports the BBC, he attacked the Vatican bureaucracy by accusing it of "spiritual Alzheimer's" and "the terrorism of gossip". The first Latin America pontiff also criticised

"those who look obsessively at their own image".

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Back in the game: SpiceJet Co-founder Ajay Singh



On a Wing and a Prayer

SpiceJet Co-founder Ajay Singh is making a comeback. Will his plans to revive the airline succeed? By MANU KAUSHIK

₹1,300 cr

The estimated amount SpiceJet owes its lenders, vendors, and authorities

If you want to be a millionaire, start with a billion dollars and launch a new airline." This statement from billionaire Richard Branson exemplifies the state of SpiceJet Chairman Kalanithi Maran. In 2010, when Maran acquired SpiceJet for some ₹750 crore, the airline had cash reserves of more than ₹450 crore. Over the years, Maran pumped in more money into the airline. Today, nobody is talking about the value of his

stake. Instead, the focus has shifted to money the airline owes – around ₹1,300 crore – to its lenders, the Airports Authority of India, vendors and tax authorities.

In the third week of December, when Maran's flagship Sun Group expressed its inability to inject more funds to revive SpiceJet, one of the airline's founders, Ajay Singh, jumped in with a deal where he, along with two global private equity investors, would

invest between ₹1,200 crore and ₹1,500 crore to get the carrier back on its feet. Singh, who got out of the airline in 2010, has made some stop-gap arrangements – about ₹100 crore – to pay off employees and oil marketing companies, which had refused to refuel the planes.

But why is Singh interested in reviving SpiceJet? Why setting up a new airline is not a better proposition, considering it would cost an estimated \$30-40 million (₹180-240 crore) to start from scratch?

One of the main reasons Singh is interested in SpiceJet is that the airline has a significant market share. "SpiceJet has an established infrastructure. If some investors infuse money, and the government also pitches in with limited facilitation, I see a future for SpiceJet," says Kanu Gohain, former head of the Directorate General of Civil Aviation, the sector regulator.

The airline cemented its position on the basis of its three prized possessions: time slots in key cities, parking bays and a wide network. Take time slots, for instance. The policy for slots allocation acts as an entry barrier for new players. Each airport allots slots depending upon a host of factors: terminal capacity, runway, baggage belts, among others. In India,

slots are allocated twice a year and existing airlines get huge preference over new entrants at the time of allocations. Most prime slots have already been taken up by the existing players. In fact, after Kingfisher Airlines went belly up, many of its slots were given to incumbents such as IndiGo, SpiceJet and GoAir. "Parking bays along with slots is a major constraint. They are not easy to acquire. An incumbent like SpiceJet definitely has an advantage," says Amber Dubey, Partner and India Head of Aerospace and Defence at consultancy KPMG. "A new airline would take four years to reach the size and scale of SpiceJet."

Experts say there are many regulatory hurdles to start and grow an airline in India. A case in point is the recent entrant AirAsia India. The low-cost carrier announced its India entry in February 2013. After nearly two years, it is operating just two Airbus A320 planes. There were reports that AirAsia was looking to get seven slots at the Delhi Airport but it has been offered only three slots for now.

SpiceJet also has the largest network among low-cost carriers. It flies to 39 locations as compared to IndiGo's 32 and GoAir's 22 destinations. But SpiceJet followed a wrong



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THE NEW INVESTORS MUST FOLLOW THE ONE-AIRCRAFT POLICY, AND RATIONALISE THE NETWORK AND WORKFORCE TO TRIM COSTS

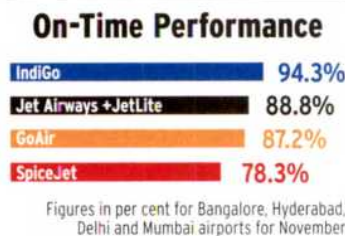
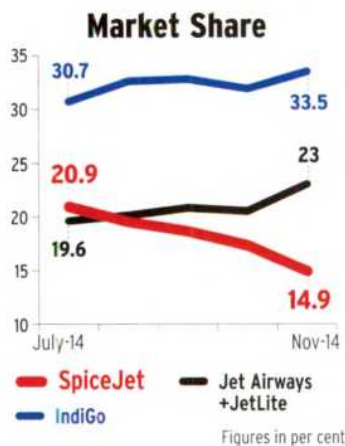
approach. In 2011, the then CEO Neil Mills introduced turboprops (Bombardier Q400 NextGen) to tap into the regional demand. The airline was operating Boeing 737s at the time. It turned out to be a mistake because the airline required two sets of people – pilots, engineers, cabin crews – at several locations. This jacked up the overall costs. “In hindsight, it looks like a bad decision,” says Ankur Bhatia, Executive Director, Bird Group, which provides ground handling services to SpiceJet. “Globally, successful low-cost carriers such as Ryanair, JetBlue and Southwest Airlines follow one-aircraft model.”

The crisis at SpiceJet comes at a time when the Indian aviation industry has yet to recover from the debacle at Kingfisher, which was grounded barely two years ago. There are fears that another failure will send out a wrong message to global investors about India’s aviation sector where seven airlines have shut shop due to financial problems in less than two decades.

To revive SpiceJet, the new investors would have to go back to the one-aircraft policy, rationalise its network and workforce to keep costs down, and take complete control of the airline. At the end of September, Maran owned 53 per cent of SpiceJet. “Maran has two options. Either he will exit fully or will remain a [silent] minority investor,” says a person involved in the negotiations.

People close to the development say exact details of the investment have not been finalised yet since due diligence is still underway. On December 26, the SpiceJet management and Singh reportedly submitted a revival plan with the government. Industry observers feel

GROWING WOES SpiceJet’s market share is falling, its performance worsening



the PE investors will bring a major chunk of the money while Singh will take managerial control. “Singh has both technical and managerial skills, and since he was at the helm [of SpiceJet] before, he might come as investor-manager,” says Dubey.

The new investors are betting on the growth potential of the aviation market in India and long-pending reforms. India is one of the fastest-expanding aviation markets globally. Total passenger traffic is likely to surge from 101 million in 2014 to 367 million in 2034, the trade group International Air Transport Association (IATA) estimates.

Falling jet fuel prices will also help as fuel makes up over 40 per cent of an airline’s operating cost. There is potential to get hefty returns in case of a turnaround. SpiceJet shares have dropped about 60 per cent in the past two years. Since PE investors typically invest with a five-

to seven-year horizon, they have enough room to earn returns on their investment in SpiceJet. “Airlines create substantial value for consumers and businesses but have been unable to generate sufficient profit. This has led to airlines being forced to cease operations in the past. Similar worries are being played out in India. The government must steer the aviation policy in a coordinated manner which addresses the underlying problems,” Amitabh Khosla, Country Director (India), IATA.

The success of a low-cost carrier hinges on one basic rule: moving the maximum number of fliers at the minimum cost. For Singh & Co., it will be about maximising the airline’s strengths and undoing the mistakes. ♦

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GST picks up speed, without alcohol and petrol. By SHWETA PUNJ

WHILE PETROLEUM PRODUCTS HAVE BEEN KEPT WITHIN THE PURVIEW OF THE GST, THESE WILL BE TAXED AT ZERO PER CENT FOR THE INITIAL 2-3 YEARS

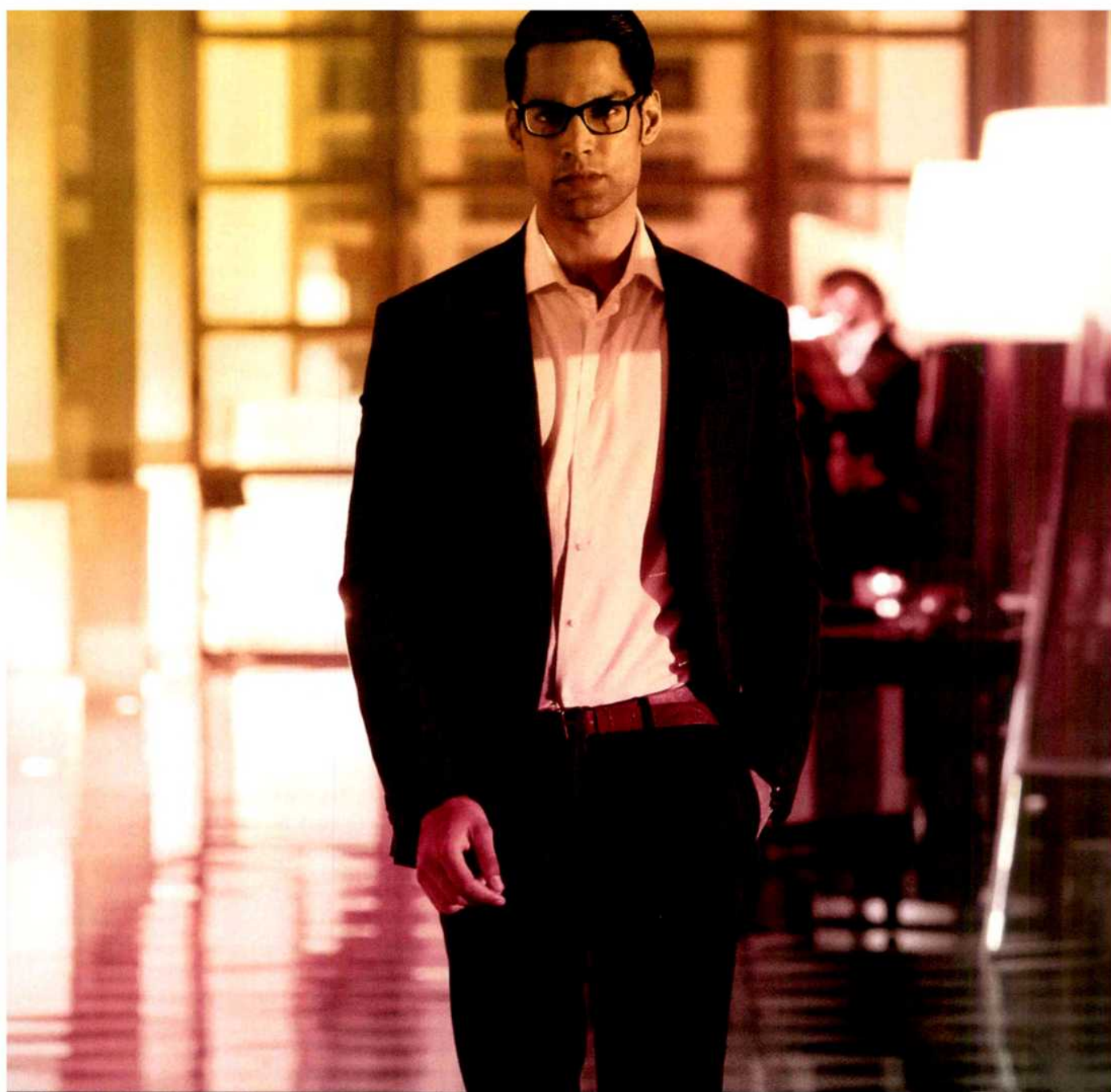
After nearly a decade of discussions and negotiations, the states are finally on board to implement what is being touted by Finance Minister Arun Jaitley as the single biggest tax reform since Independence: the Goods and Services Tax (GST). An indirect tax that will subsume all other indirect taxes on goods and services, the GST aims to usher in a unified tax regime across India.

The broad-based consumption taxes that the GST would replace are CENVAT and Service Tax levied by the Centre and the Value Added Tax (VAT) levied by the states. India is set to move to the new tax regime from April 1, 2016. A Constitutional Amendment Bill to facilitate the GST was introduced in the Lok Sabha on December 19 and will be taken up

in Parliament in the next session.

While India Inc is relieved, on the political front this is the one thing that the government can be proud about in what was largely a dull winter session. But in doing so did it give away too much, maybe dilute the concept of the GST? Perhaps so.

The base of the GST has been reduced to exclude alcohol. While petroleum products have been kept within the purview of the GST, these will be taxed at zero per cent for the initial two-three years to ensure smooth transition to the GST regime. GST on petroleum products has been a vexed issue as the states get nearly 30 per cent of their tax revenues from these goods. Tobacco, however, has been included.



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The new Bill also provides for compensation in the initial years — full compensation for the initial three years, 75 per cent for the fourth year and 50 per cent for the fifth year. Finance Minister Jaitley has already decided to release ₹11,000 crore to states towards Central Sales Tax (CST) compensation. Shivraj Singh Chouhan, Chief Minister of Madhya Pradesh, told *Business Today* that concerns about compensation for revenue loss and tax-sharing mechanism have been addressed.

The Centre has also given in to the demands of the BJP-ruled states such as Maharashtra, Haryana and Gujarat to impose an additional levy of one per cent on supply of goods in inter-state trade for two years. A YES Bank analysis shows that states with higher rate of VAT on petroleum products or states where petroleum products account for bulk of revenues will be adversely impacted. It includes Madhya Pradesh (28.27 per cent), Andhra Pradesh (31 per cent), Maharashtra (27.62 per cent), Gujarat (25.46 per cent) and states which have VAT above the mandated 12.5 per cent.

"With the concessions that the Centre has made, they may have sown the seeds of a more watered-down GST. There is still the potential to broaden the base and design a clean GST, but I am not very optimistic," says Satya Poddar, Senior Tax Partner, EY India.

The GST is supposed to be a destination-based tax, with tax at the final point of retail. By allowing manufacturing states to levy a tax at the point of origin, the Centre has tried to bring in the GST with concessions and also keep the elements of the CST, which the GST was supposed to replace. "This is like levying income tax and expenditure tax. It is a confusing tax system," says Vivek Mishra, Leader, Indirect Tax, PwC.

It was expected that the Centre would be able to build a consensus, especially among the BJP-run states, on the salient features of the

GIST OF GST

Bill proposes to give states five-year compensation timeline for revenue losses

Petroleum products not subject to GST, until the GST council decides

States with manufacturing activity will get to levy 1% tax on inter-state trade

Alcohol will be outside the ambit of GST

States will be empowered to tax imports. Currently, states levy VAT & Centre levies customs duty

Bill. But it was those states that bargained hard for the one per cent additional levy.

Sushil Kumar Modi, former chairman of the empowered committee of state finance ministers on the GST, recounts that he had almost built a consensus on keeping the petroleum products within the ambit of the new tax. "We will have to see what the rate would be....," he had told *Business Today* in November. The committee has suggested a Revenue Neutral Rate for GST implementation with Central GST rate at 12.77 per cent and a state GST rate at 13.99

per cent, which is higher than the current combined Centre and State VAT rate of 26.5 per cent (CENVAT of 14 per cent and VAT of 12.5 per cent). A near-27-per-cent tax rate would be one of the highest in the world, making compliance an issue.

"A good GST is one with a broader base and lower rate; 27 per cent rate is just too high," says Poddar. But with the GST, we are looking at a monumental mind-shift from origin-based tax to destination tax for the manufacturing sector. Even in its current form, it will reduce the number of touch points on taxes. "In a perfect world, there is one-tax GST. What we have currently is the most receptive system in the world," says Rajeev Dimri, Head, Indirect tax, BMR Advisors. "Whatever is being proposed is falling short of global standards but it is a huge step forward. And remember compromises have to be made."

After the constitutional amendments are passed by both houses of Parliament, half of the state legislators will have to ratify them. This will be followed by a discussion on the GST in both houses of Parliament. State legislators will also have to table and pass their own GST Bills. It is still a long way towards a full-fledged GST regime. ♦

WITH INPUTS FROM ANILESH S. MAHAJAN

BY ALLOWING MANUFACTURING STATES TO LEVY A TAX AT THE POINT OF ORIGIN, THE CENTRE HAS TRIED TO BRING IN THE GST AND ALSO KEEP THE ELEMENTS OF THE CST

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Oil's Not Well

The plunge in crude prices may come as a mixed blessing for the Narendra Modi government. By ANILESH S. MAHAJAN



RAJ VERMA

IF CRUDE OIL PRICES PLUNGE WAY BELOW \$60, IT COULD HAVE SOME ADVERSE FALLOUT FOR THE INDIAN ECONOMY

Oil prices have been headed south for the last six months, almost halving in value in the period. On December 24, prices of Brent crude – to which most Indian imports are linked – fell to \$60 a barrel. It has come as a respite to oil importing countries, including India, easing inflation and inflationary expectations. India imports 78 per cent of its crude requirement. In 2013/14, India paid \$105 a barrel on average to import crude oil worth \$168 billion – it stacks up to more than one-third of the country's import basket.

Most analysts expect crude prices to soften further over the next six months because of lacklustre global demand and oversupply. It's largely a consequence of weak economic activity and a growing shift from oil to other fuels. Also, the US has become the world's largest oil

producer and significantly cut down on its imports of the fuel. All these factors combined have put pressure on prices. In the last six months, the world is estimated to have had an oversupply of one million barrels a day.

But already there is a raging debate in India among economists and senior bureaucrats on how long the country can continue to gain from falling oil prices. It is felt that if prices plunge way below \$60, it could have some adverse fallout for the Indian economy.

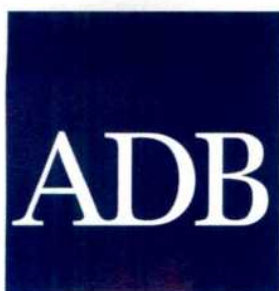
Indian exporters, in particular, are concerned about the drop in crude prices. "A further slide would mean the erosion of buying capacity of other oil-linked economies, and hit export orders," says a machinery tool exporter from Punjab. Ajay Sahai, CEO of the Federation of Indian Export Organisations,



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told *Business Today* that exports to West Asia, Latin America and Russia – the major oil producing regions which account for about a fourth of India's exports – are down by around 20 per cent in value terms. The slump in crude prices has severely dented the Russian rouble and has had some impact on the Indian rupee as well. The rupee slipped to 63.66 against the dollar on December 26 from 62.21 on November 30.

It is an opportunity for India to fill its strategic oil reservoirs – one each near Vishakhapatnam, Manglore and Pudur – that have a capacity to store 5.3 million tonne of crude oil. These reserves are kept handy for emergency purposes. "China is using this opportunity to buy a lot of discounted cargoes on the spot market and fill their strategic reserve. Hope India starts doing the same," says Aditya Gandhi, Director at Sapient Global Markets (India), a consultancy. At current prices, India would require \$2.5 billion (₹15,000 crore) to fill the reservoirs. India is looking for partners – preferably an oil producing country – for supplying crude and funding the initiative, and was negotiating with the UAE and Kuwait. But talks are making little headway. Kuwait, for instance, is unwilling to play ball – with crude sliding below \$65 a barrel it would not break even on the oil supplied.

The slide in prices is also impacting domestic exploration companies, Oil and Natural Gas Corporation (ONGC) and Oil India Ltd (OIL). ONGC's net realisation – the final amount it gets for its products after providing discounts – was \$40.9 a barrel in 2013/14, when the average price of crude oil was \$105 a barrel. The price slump is significantly eroding the profitability of the company. Analysts believe that the cushion provided by the gas price hike and reforms in fuel subsidies may still not be enough to ensure the same net realisation for ONGC, the country's largest oil and gas exploration and production company. Back-of-the-envelope calculations show that every one

dollar drop in crude oil prices translates into ₹800 crore revenue and ₹475 crore profit loss for the company. The finance ministry has shelved its plans for disinvestment in ONGC, concerned that it may not get the best price for the company's shares in the backdrop of falling oil prices. The ONGC stock has also taken a pounding in recent months, falling from over ₹400 to about ₹340 in the last six months.

Meanwhile, India has no option but to go slow in inviting bids for exploration licences. Most oil blocks are in deepwater where exploration is costlier compared with on-land. Global, and even Indian, companies may find it difficult to bid at a time when their profitability is getting squeezed. "Today, globally, oil is not a lucrative commodity to invest in. Most

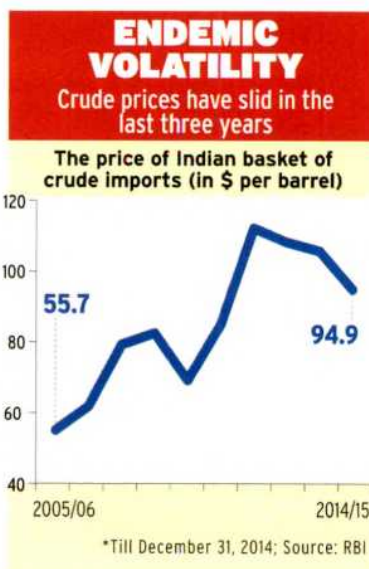
oil blocks in India require extensive investments," says R.S. Sharma, former CMD of ONGC.

Meanwhile, the government is trying to find a solution to the problem at hand. The petroleum ministry plans to make the Production Sharing Contracts more lucrative. A committee headed by noted economist C. Rangarajan has suggested doing away with the revenue-sharing model and adopting royalty-based contracts. This would mean that the companies would simply have to pay a

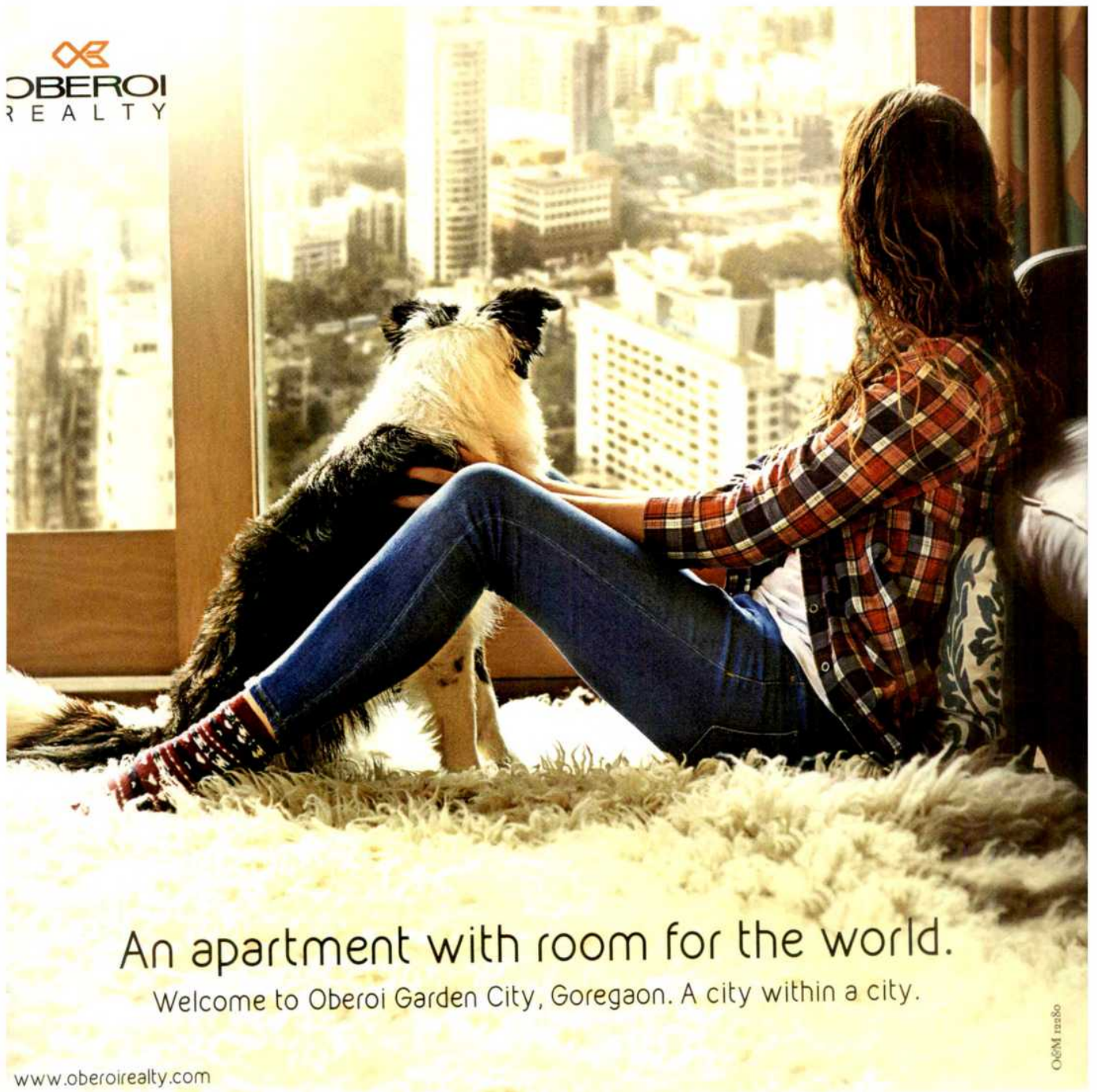
fixed royalty to the government, irrespective of the amount of oil and gas produced from the block. Another panel headed by economist Vijay Kelkar has suggested retaining the existing system – it allows operators to retain the cost of a project before sharing revenues with the government. However, it has come under a cloud after a dispute with Reliance Industries related to the D6 block in the KG basin.

Clearly, the tumble in crude prices may come as a mixed blessing for the Narendra Modi government. It will be stretched as it deals with the fallout – the policy response will have a direct bearing on India's growth prospects in the days and months ahead. ♦

@anileshmahajan



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Which Way Will



MADAN SABNAVIS

IT CAN DROP BELOW 64

The rupee's slide from an average of 61.70 to a dollar in November to 63.51 on December 24 has been due to factors driven by both internal and global influences, as well as shocks emanating from the Russian crisis. However, the markets have taken it more stoically this time compared to 2013 as there is a belief that the balance of payments (BoP) is strong today with forex reserves of around \$315 billion and that the present development is relatively transient in nature.

The Russian crisis has impacted almost all emerging-market currencies. Russia, being a major oil player, has been affected relatively the sharpest by the declining price of oil with the OPEC's recalcitrance to cut production in a bid to squeeze out shale oil production in the US. This, combined with the Ukrainian crisis, which has led to a trade embargo by western nations on Russia, has pushed it to a point of possible default, as memories of 1998 have been ignited when the government had reneged on payments. Add to this the statement by Janet Yellen [Federal Reserve chair] on the possible increase in US interest rates, which has caused funds to move away from emerging markets. The Mexican peso, Brazilian real, Turkish lira and South African rand were all impacted by this development.

The rupee's fall, though not that precipitous relative to peers, has also been driven by developments in the BoP as the trade deficit has widened in November with gold imports compensating for the decline in the oil bill due to lower crude prices. This, combined with the outflow of FIIs in both the debt and equity segments, has put pressure on the external balance, thus exacerbating the position. Funds, too, have now buffered in a rate cut by the RBI in early 2015, which would mean the Indian market would become less attractive at a time when the rates are increasing in the US and declining in India. The RBI has been intervening off and on to control this fall, but some-

where there is a feeling that the rupee should be allowed to weaken to provide a boost to exports, considering that shipments have shown signs of slowing down with the relatively anorexic world economy.

The rupee will also tend to be impacted by the global currency play where the strengthening of the dollar will continue to weaken related currencies and this is one factor over which we will have less control. The earlier theory of the real exchange rate being overvalued has diminished in importance given the decline in inflation in recent times back home.

What does it all mean for us? The rupee will remain volatile until the Russian crisis eases and the direction will be upward (depreciation). Importers should be wary of such movements and hedge their positions to ensure they are not caught on the wrong foot. The RBI, which has almost taken comfort at the inflation situation, will have to bring in the exchange rate factor on top of consumer price inflation targeting when considering the next monetary policy move. It should always be ready to intervene in case volatility increases.

A weaker rupee may not quite help to push up exports, given the state of the world economy and the limited elasticity of our exports to rate changes. Imports, on the other hand, would become dearer and add to the inflationary pressure. More importantly, companies that have borrowed progressively from the ECB route will be pressurised on their repayments and debt service with a weaker rupee, more so as they have not been hedging their positions given the high cost. Therefore, a volatile rupee is a concern for the economy and the RBI is cognizant of the same.

While a rate of ₹61 to ₹62 looks fair under normal circumstances, ₹63 to ₹64 can be the short-term range, which can spill past ₹64 if the crisis exacerbates. ♦

*The author is Chief Economist,
CARE Ratings*

WHILE A RATE OF ₹61 TO ₹62 LOOKS FAIR UNDER NORMAL CIRCUMSTANCES, ₹63 TO ₹64 CAN BE THE SHORT-TERM RANGE, WHICH CAN SPILL PAST ₹64 IF THE CRISIS EXACERBATES

the Rupee Go

AJIT RANADE

OUTLOOK FOR 2015 IS BULLISH

Back in June 2013 the rupee was in free fall. Ostensibly, this was the fate of all emerging-market currencies, from Indonesia to Turkey, Brazil and South Africa. The global currency crash was triggered by a casual comment by Ben Bernanke, the then chairman of the US Federal Reserve. He merely said that maybe the time had come to stop printing money indiscriminately, the so-called "taper talk". By mid-summer, there was near panic in India, the exchange rate was falling headlong toward 70, with no bottom in sight. The RBI hiked interest rates steeply, and the finance ministry hiked import duties steeply.

Come September [2013], a new RBI governor [Raghuram Rajan] stepped in, and the turbulent waters receded, as if by magic. He aggressively pursued foreign investors, including NRI depositors, by offering a substantially discounted insurance on rupee depreciation. You bring in dollars with minimum residence requirement, and you get the double benefit of higher interest earnings, as well as some protection against depreciation. Your dollars are safe here, was the message. The exchange rate stabilised, and stayed that way for 14 months. Of course, it helped that, alarmed at the devastation caused by the "taper talk", the Fed, too, went slow on actually turning the tap off.

During 2014, the rupee was the top performing emerging-market currency. It depreciated the least against the dollar. Even the mighty euro and the Japanese yen plunged sharply. India also garnered more than \$35 billion as a result of the RBI governor's bargain to lure dollars. There was record inflow into stock and debt markets. The RBI continued to mop up all incoming dollars, preventing the rupee from appreciating. The exchange rate stayed within a narrow band of about 60 to 62. This had a perverse effect on importers, who were lulled by the remarkable "stability" of the rupee-dollar rate. Importers, who had future obligations to pay for their imports,

chose to remain unhedged. Normally in volatile times, they would have bought "forward" dollars, and covered their future payables. This insulates them from a fall in the rupee. This is not safe, in the world of currency matters. But importers say that "buying" insurance, i.e., the forward premium to be paid, is too high. It is implicitly forecasting that the rupee will fall to 67 or 68 in one year's time, when they "know" that it will be much more stable.

The outlook for 2015 remains mostly bullish for the rupee, relative to other currencies. The year will be a theme of dollar strength. The global dollar index is close to 90, at a multiyear high. The steep fall in oil prices has coincided with the shale oil revolution, and a manufacturing resurgence in the US, which recorded its highest quarterly growth in the past 11 years. The US and India are the only two economies that, the IMF says, will perform better in 2015. India is reaping a triple bonus from the steep fall in oil prices. First, the fiscal deficit will be lower by, perhaps, ₹50,000 crore, thanks to savings in oil related subsidies. Second, the current account deficit will be down to 1.5 per cent of GDP, thanks to a lower oil import bill. And third, inflation is likely to be lower, making it possible for the RBI to reduce interest rates. This, in turn, is a big plus for the housing and automobile industry.

Oil prices hitting a lower barrier is making shale oil investors nervous and is causing havoc in the Russian economy. The latter has geopolitical implications. So, the oil price fall will be curtailed. The rupee, too, could slip a tad lower, in line with India's inflation differential with the dollar economy. Given India's higher growth prospects, a conducive policy and budget for private and foreign investments, expect the rupee to be a high performer in 2015, too. Best wishes for a rupee anxiety-free New Year! ♦

*The author is Chief Economist,
Aditya Birla Group*

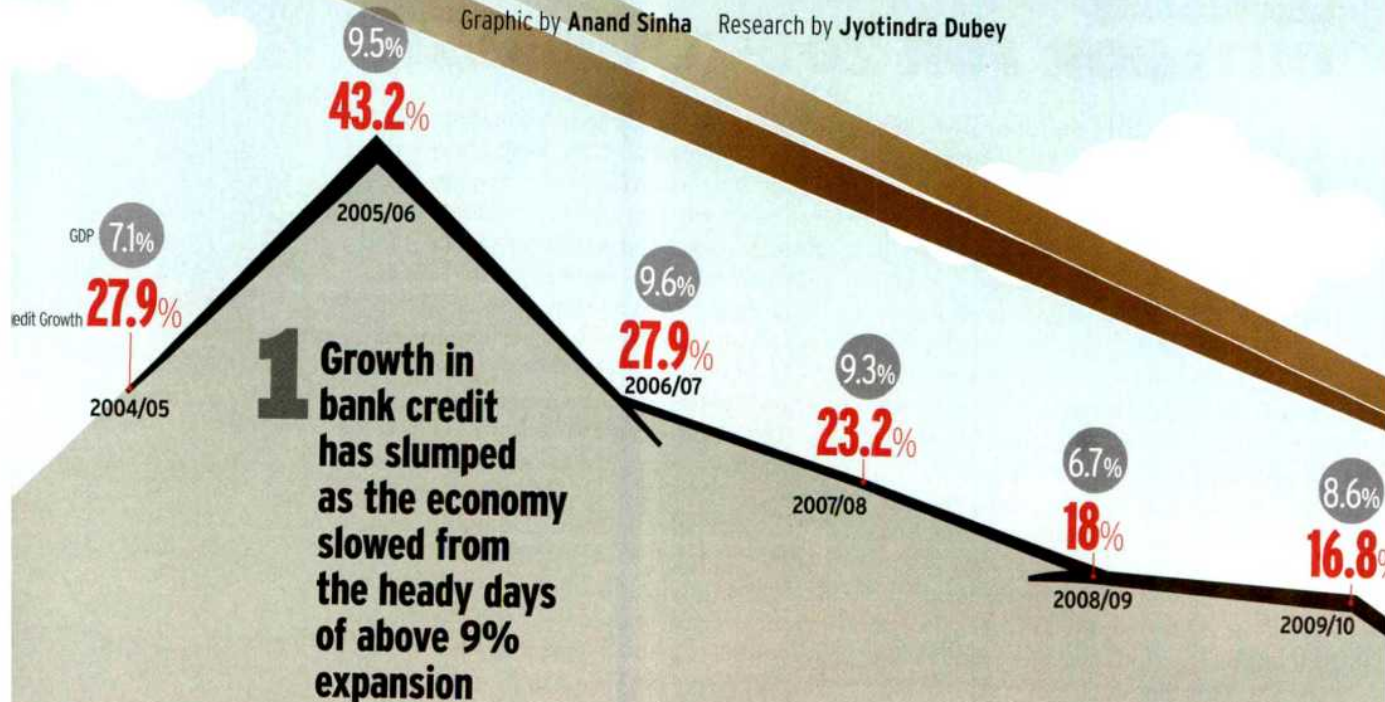


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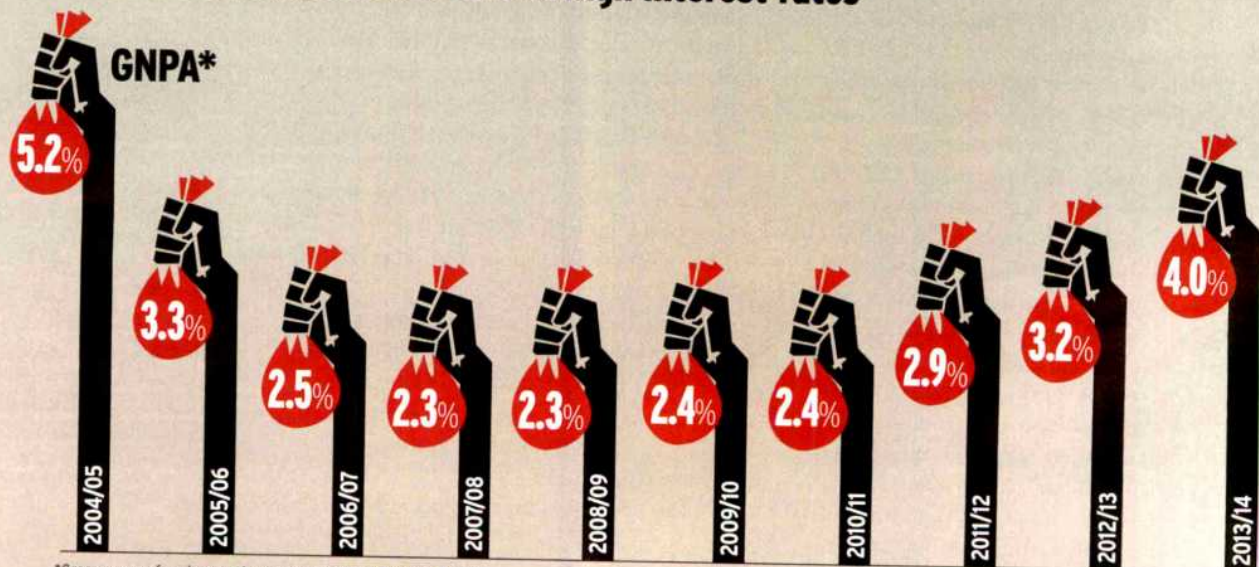
SIGNS OF DISTRESS

India's banking sector is going through tough times as loan growth slows while bad debts jump in the midst of the economic slowdown.

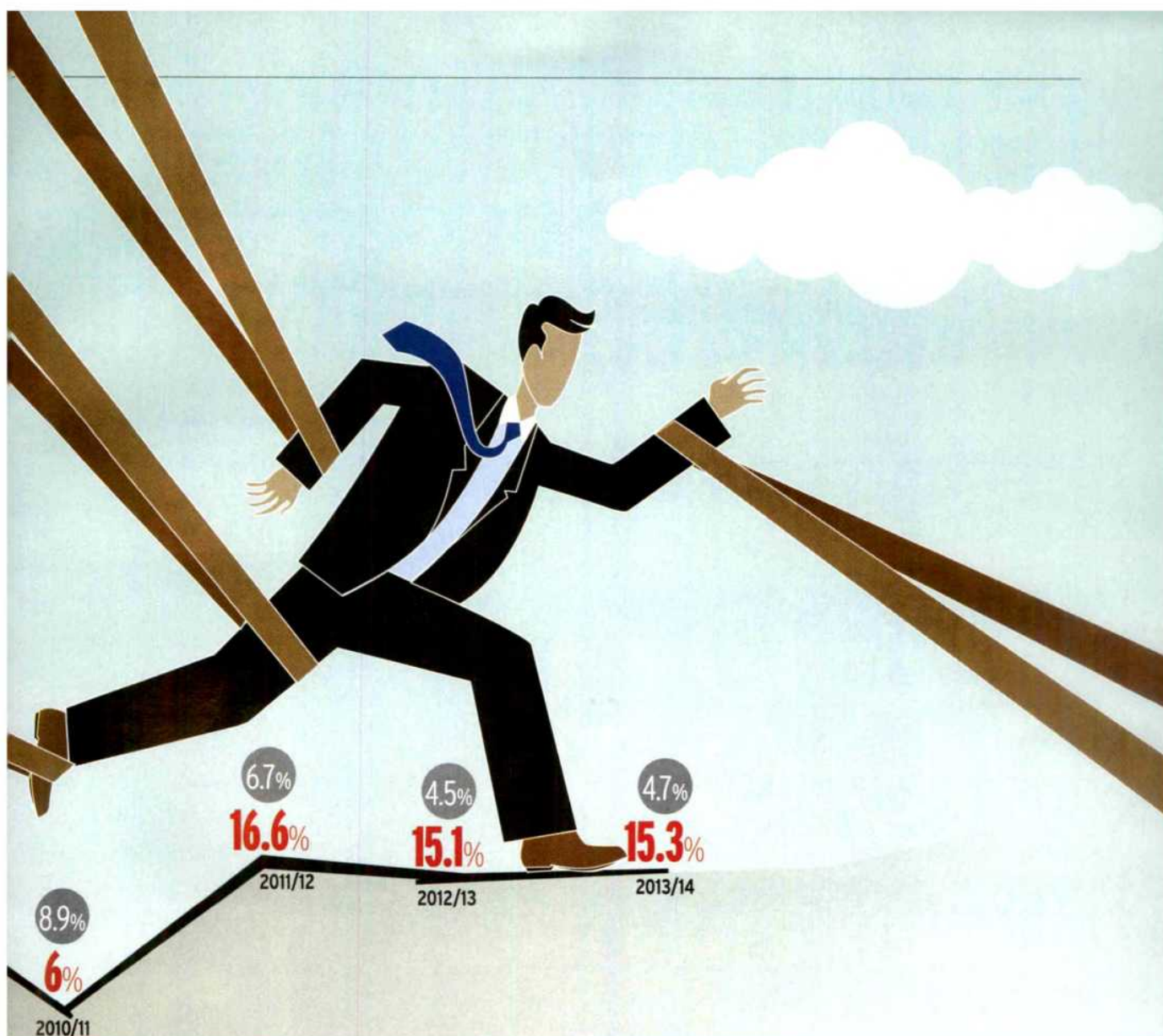
Graphic by **Anand Sinha** Research by **Jyotindra Dubey**



2 Bad loans are rising as borrowers default in the wake of the economic slowdown and high interest rates



*Gross non-performing assets as a proportion of total bank loans



3 Cases of debt recast have more than doubled and the amount quadrupled in the past six years

Aggregate Debt (₹ crore)

Mar'09 86,536

Mar'10 1,04,299

Mar'11 1,10,914

Mar'12 1,50,515

Mar'13 2,29,013

Mar'14 3,30,444

Sep'14 3,67,607

No. of cases

184

215

242

292

401

476

505

4 The infrastructure sector accounts for nearly a third of the total debt restructured as of September 2014



Infrastructure
(including power)
32.02%



Textiles
9.21%



Iron and
Steel
16.26%



Construction
6.15%



Telecom
4.11%

Source: RBI, CDR India

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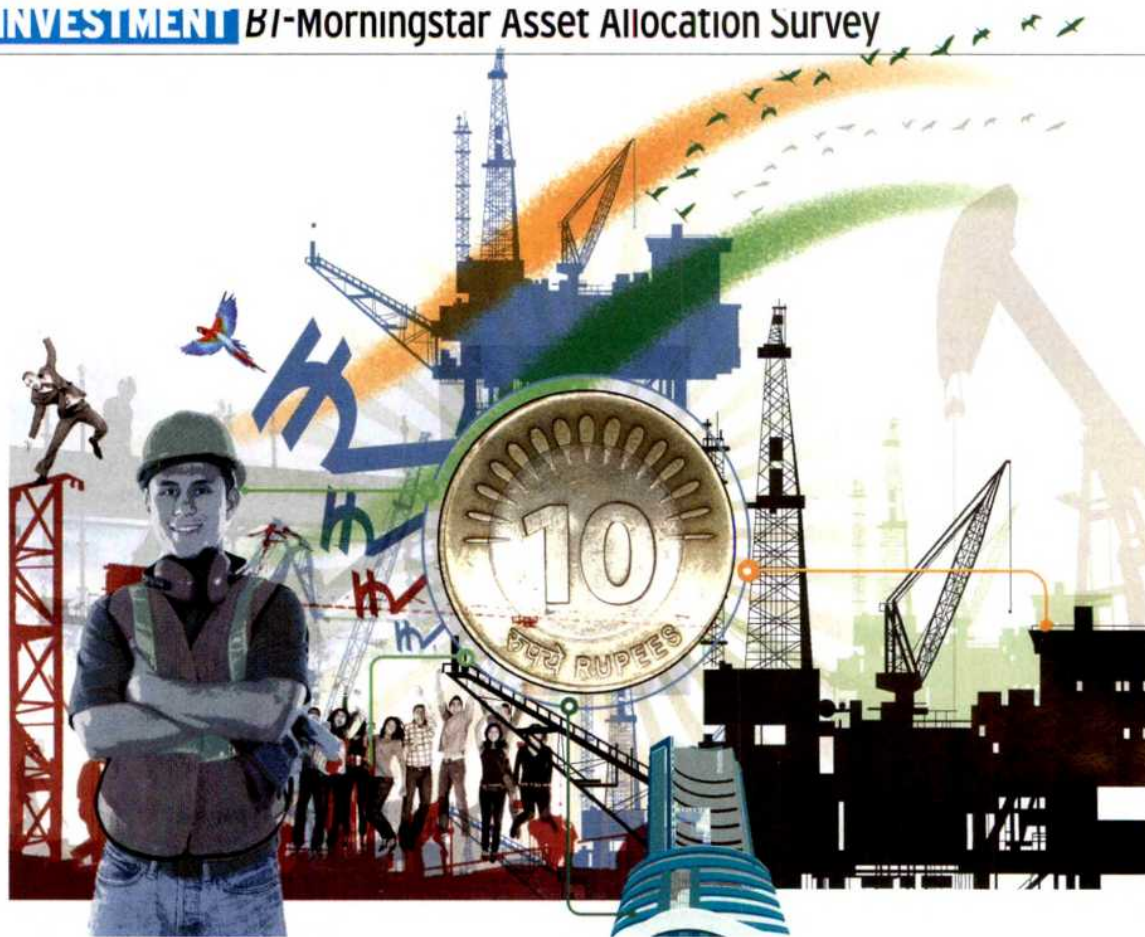
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Riding the Wave of Hope

The market is surging and fund managers are buoyant. But their expectations are heavily dependent on the government's policy decisions. By MAHESH NAYAK

With the BSE Sensex near all-time highs, fund managers, rather than being cautious, are buoyant. Swati Kulkarni, Executive Vice President and Fund Manager at UTI Mutual Fund, is one of them. She sees immense value in the market at the current levels. "Valuations are still attractive. The Sensex is trading at a one-year forward price-to-earnings (P/E) ratio of 14.5 times, and we will be a buyer in this market," she says. The eighth edition of the *Business Today-Morningstar Asset Allocation Survey* vindicates this market sentiment. No fund manager is bearish; in fact, 60 per cent of them are bullish at the current levels. None of them expect

the Sensex to fall below 26,000 points. A majority of them – 58 per cent – expect it to be around 30,000 to 32,000 points in the next six months.

Five quarters ago, in the third *BT-Morningstar* survey, only 15 per cent fund managers had expected the Sensex to go above 20,000 points; a majority of them (46 per cent) had said it would be around 18,000 to 20,000 points. But despite the Sensex rising, no fund manager expects the average P/E ratio to cross 20 times forward earnings in the next six months. While 62 per cent expect it to hover between 16 and 18 times, 31 per cent said it will be around 18 to 20 times.

Though fund managers are bullish, they are cautious about choosing the stocks. At these levels, fund managers prefer to stick to large-cap stocks. Sixty-two per cent of

FUND HOUSE PARTICIPATION

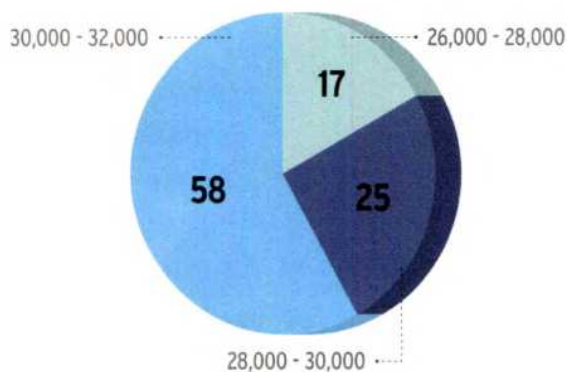
1 Axis MF	6 IDFC MF	11 Motilal Oswal MF
2 Birla Sunlife MF	7 India Infoline MF	12 Quantum MF
3 Edelweiss MF	8 Indiabulls MF	13 Sundaram MF
4 HDFC MF	9 Kotak MF	14 Tata MF
5 ICICI Prudential MF	10 Mirae MF	15 UTI MF

The 15 fund houses account for 58% of the MF industry's assets under management

1 What is the next trigger for Indian markets?



2 What is the expected level for the BSE Sensex with a six-month horizon?



them said they would have less than 30 per cent exposure to mid- and small-cap stocks. Since the last survey in September-October, the sectoral preferences of the fund managers have not changed. They continue to prefer banking, automobile, technology and capital goods sector over metal, utilities, FMCG and consumer staples, and real estate.

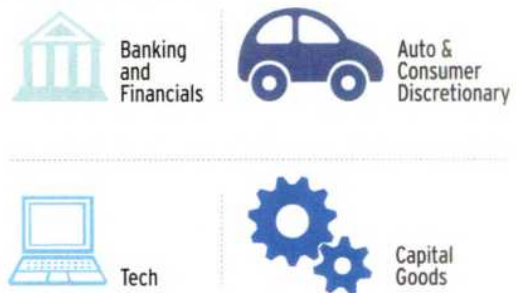
The fund managers sounded optimistic. "Looking three years ahead, I would invest 50 to 60 per cent of my money at the current levels," says Mahesh Patil, Co-CIO at Birla Sun Life Mutual Fund. He says that although the index is near all-time high levels, valuation parameters are below the 2008 highs. "Valuations are in line with the long-time average of 15.7 times," says Patil. According to Sonam Udasi, research head at Tata Mutual Fund, the market is nowhere near the 2008 situation. "Any correction should be seen as a chance to invest more. If I have to invest ₹100, I would invest 10 per cent every month and 20 to 25 per cent on days when the market sees a sharp correction," he says.

The sharp plunge in crude oil price – nearly 45 per cent in the past three to four months – leading to relief in inflation and current account deficit is also a key reason why fund managers are bullish. In the next six months, 57 per cent of them expect the oil price to hover in the range of \$80 to \$90 a barrel. Currently,

3 What allocation would you recommend for equity, debt, gold and cash over the next one year?



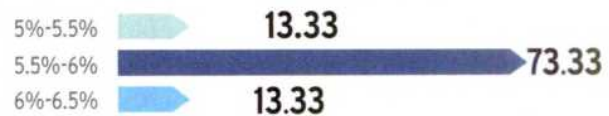
4 Which sectors look attractive over the next six months?



5 Which sectors are you least confident about over the next six months?



6 With a six-month horizon, at what levels do you see India's GDP growth rate?



7 With a six-month horizon, how do you expect policy rates to pan out?



All figures in per cent

Source: BT-Morningstar Asset Allocation Survey

crude oil is trading at around \$60.

Nearly three-fourths of the fund managers foresee consumer price inflation to be between five and six per cent in the next six months. Retail inflation for November was 4.38 per cent. With inflation easing, 67 per cent of survey respondents expect the Reserve Bank of India (RBI) to cut interest rates by 50 basis points in the next six months. "The market expects this rate cut in February. But the weakness in the rupee has tempered this expectation and now the market expects at least a 25-basis-point cut," says Maneesh Dangi, Co-CIO at Birla Sun Life Mutual Fund. Expecting a rate cut, 83 per cent of the respondents are increasing their holdings in government securities.

Most fund managers do not expect the rupee to depreciate further against the US dollar. Eighty per cent of the respondents expect the currency to hover around ₹60 to ₹62 in the next six months. The fund managers also expect the government to deliver. "In the next one year, the investment cycle has to pick up. Otherwise the India story will fade away," says Kulkarni of UTI Mutual Fund. Rate cuts, the budget, earnings upgrade and the Goods and Services Tax (GST) are the main triggers the equity market eagerly awaits.

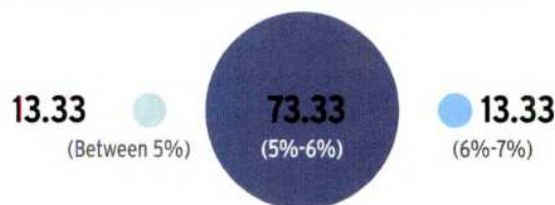
In the next budget, the fund managers expect the government to move towards next-generation reforms, fiscal consolidation and a roadmap for GST. "The market, including international investors, expects clarity and consistency in policy. This includes delivery of GST and how incremental investment is to happen. One can't only depend on consumption-led growth," says Udasi of Tata MF. In fact, 64 per cent respondents expect the investment theme to play out in the next one year.

Seventy-four per cent of the fund managers expect growth in gross domestic product (GDP) to be between 5.5 per cent and six per cent in the next six months. One of the major risks that the market faces, fund managers say, is the slow pace of reforms by the government leading to muted earnings and GDP growth. While 19 per cent of them felt that a slowdown in foreign portfolio flows could spoil the party for the markets, 12 per cent said any depreciation in the rupee could also be calamitous. Though a rise in US interest rates may act as a speed-breaker for a short time and any shock to global growth could have cascading effects on India's GDP growth, no fund manager has any worry so long as corporate profitability improves.

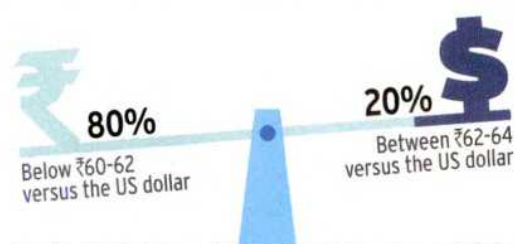
"Over the next three to four years, as the economy sees a cyclical uptick, clocking a CAGR of 17 per cent, propelled by higher revenues, operating leverage and interest cost savings driving growth in earnings per share, the Sensex can hit 48,200," says Patil. ♦

@MaheshNayak

8 What is the expected level for consumer price inflation over the next six months?



9 How do you see the rupee moving versus the US dollar over next six months?



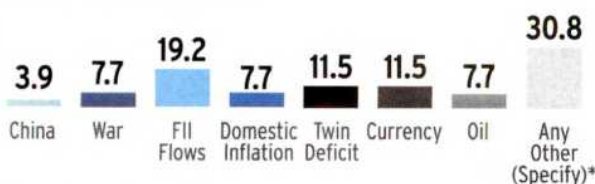
10 What is the likely price range of Brent crude over next six months?



11 How should equity investors allocate money over the next six months?



12 What are the main risks for the Indian market?



*Slow pace of government reforms leading to slow earnings and GDP growth
All figures in per cent Source: BI-Morningstar Asset Allocation Survey



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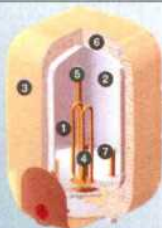


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1. Heating element Incoloy 800 with Glasslined Enamel coating
2. Inner tank with Blue Sapphire coating
3. ABS outer body
4. Magnesium anode
5. Hot water outlet pipe
6. High density PUF insulation
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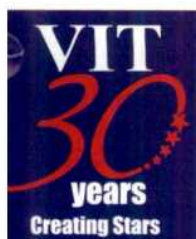
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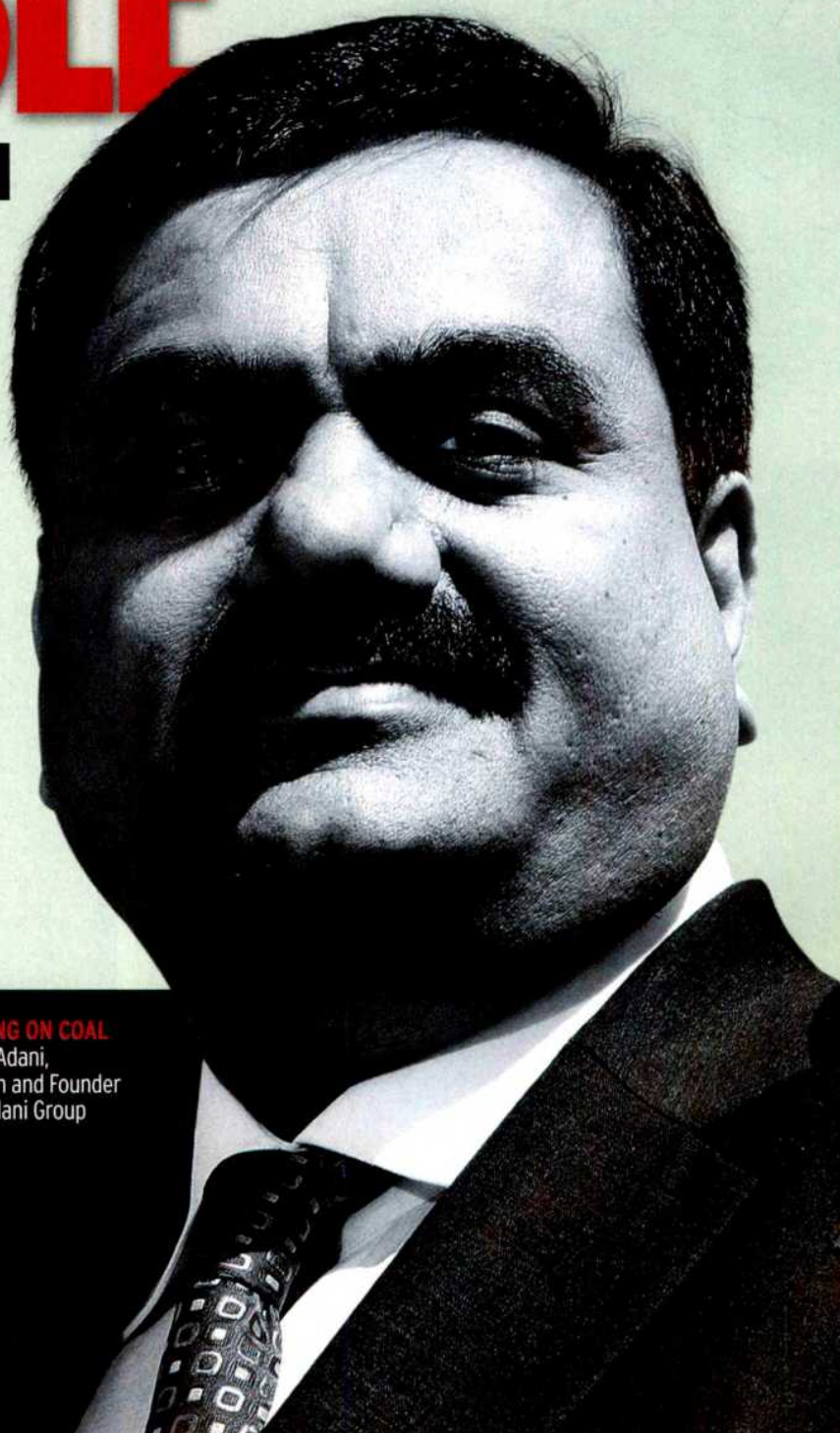
ADANI'S \$10-BILLION GAMBLE

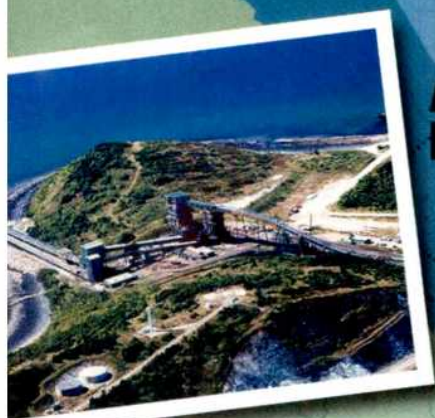
**WHY GAUTAM ADANI
IS MAKING A BET
ON AUSTRALIAN
COAL AND HOW
THE ODDS ARE
STACKED.**

By TONY JOSEPH

COUNTING ON COAL
Gautam Adani,
Chairman and Founder
of the Adani Group

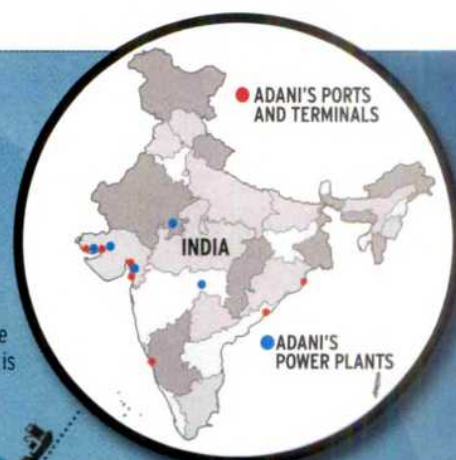
UMESH GOSWAMI





ADANI'S AMBITIOUS PLANS DOWN UNDER

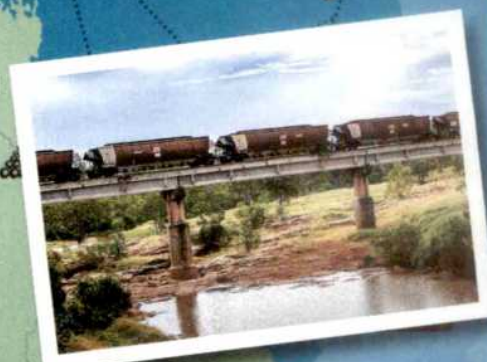
The Abbot Point terminals will be able to handle 60 million tonnes of coal a year. Two-thirds of the coal will be shipped to India, of which about half is meant for Adani's own power plants



Adani's Carmichael mine is located in the Galilee basin. The basin is 250,000 sq km in area - slightly bigger than the UK - and holds an estimated 27 billion tonnes of coal



Adani is building a railway line connecting Carmichael Mines to the Abbot Point port, where the company will also construct a second terminal. The railway line and the terminals could also handle coal from other mines in the Galilee basin



AUSTRALIA

As you enter the 25th floor of the imposing 10 Eagle Street building on Brisbane's Golden Triangle business district, there is little to suggest that this is the nerve centre of one of the biggest projects ever undertaken by an Indian business house and the most globally controversial one as well, in terms of both environmental impact and economic viability. Though it is mid-morning, the foyer and the corridors look empty from the outside except for a back-lit logo that just says 'adani'. You have to ring a bell for a receptionist to appear and press a button to unlock the glass doors. Once inside, there are two things you notice - one, a panoramic view of the Brisbane river

and the city down below and, to your right, a large picture on the wall, an aerial view of what must be a port with a very long snout, or trestle.

The Nature of the Gamble

The picture carries no description, but it doesn't need to: it is the biggest single bet Gautam Adani has ever made – the Abbot Point port terminal in Queensland, about 980 km north of Brisbane, which he bought for nearly \$2 billion in 2011. Another \$1 billion has gone into the Carmichael mine in the remote Galilee Basin, about 400 km inland from Abbot Point, half of it for buying the rights to it in 2010, and the rest for drilling and exploration since then. Over the next three years, Adani will need to invest at least another \$7 billion – half, \$3.5 billion or so, to get the mine up and ready for first coal; and the rest to build a brand new railway line to Abbot Point and to construct another terminal there to handle the full volume of 60 million tonnes of coal a year that the mine will produce once the ramp-up is complete by 2022.

This is a vertical integration play with a vengeance – Adani will mine the coal in Galilee Basin, transport it on his own railway line to a port in Abbot Point that he owns, and then ship it to his own Indian port from where it will be taken to his own power plants. Two-thirds of the Carmichael coal, or about 40 million tonnes a year, is meant for India, with about half of that

intended for Adani's own plants. According to ABC Radio, Australia has never seen anything like this, and neither has India. When the mine is fully ramped up, it will be the biggest in Australia by far (twice the size of the next biggest), and also one of the largest in the world.

Even more important, as the pioneering ven-

ture in the Galilee Basin, Adani's project is likely to have a multiplier effect. The rail and port infrastructure he builds will probably bring to life five other proposed megamines in the Galilee Basin belonging to companies such as India's GVK and China's Macmines, with a combined capacity to produce 272 million tonnes of coal a year. In fact, the viability of the Adani infrastructure projects depends crucially on these other projects taking off, so that they can either share the cost of the build-up, or pay for its services. In effect, Adani's moves will open up the entire Galilee Basin for exploitation – a 250,000 square kilometre area, slightly bigger than the United Kingdom – that is estimated to hold over 27 billion tonnes of coal in all.

And there lies both the strength and the weakness of Adani's Galilee Basin gamble. On the one hand, it is the scale of this possibility that is making both the Australian federal government and the Queensland state government bend over backwards to please Adani – even going to the extent of promising hundreds of millions of dollars in equity for his proposed rail line to Abbot Point, or offering a royalty holiday for the first project to come up in the Galilee Basin. On the other hand, it is precisely the scale of this possibility that is making the global environment movement see red, and join hands to stop the project dead in its tracks. According to the Green Institute of Australia, the lifetime carbon dioxide emissions of the coal mined in the Galilee Basin would be, conservatively, 24.7 billion tonnes, and that is about five per cent of the carbon budget available for the whole world between 2010 and 2050, if we are to restrict global temperature increase to within 2 degree Celsius.

The environmentalists so far have had some remarkable successes. They have run a sustained global campaign against Adani's Abbot Point port expansion plans, which involve dredging and dumping around 3 million cubic metres of spoil in the Great Barrier Reef World Heritage Area. (The Great Barrier Reef itself is just an hour or two away from Abbot Point by boat). Under the threat of UNESCO putting the Great Barrier Reef on the endangered list, the Australian government was forced to reverse the permission it had given to dump the spoil in the sea, and recommend that it be dumped on the Caley Valley wetland



JEYAKUMAR JANAKRAJ

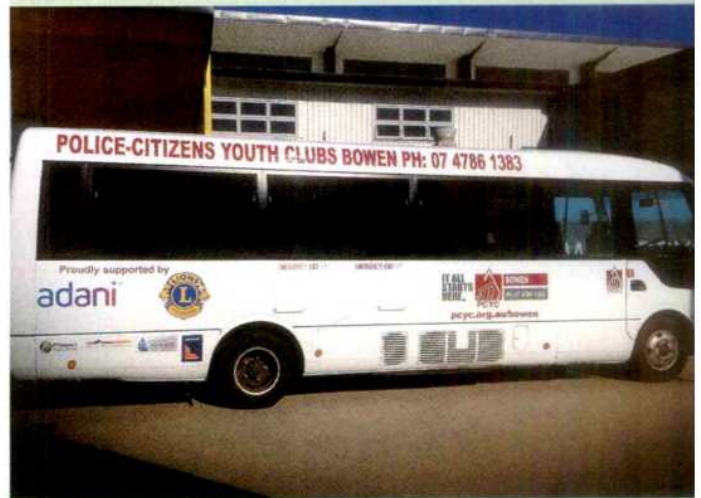
CEO/ Adani Mining Australia

"THEY [THOSE OPPOSING ADANI PROJECTS] HAVE GOT A JOB, AND THEY ARE DOING THEIR JOB; WE HAVE GOT A JOB, AND WE NEED TO DO OUR JOB"

instead, at an additional cost, by some accounts, of hundreds of millions of dollars.

The campaigners have also been successful in forcing many global banks and investment houses – including Citigroup, Goldman Sachs, Deutsche Bank, JP Morgan Chase, Royal Bank of Scotland, HSBC and Barclays – to publicly declare that they would not fund any development in a world heritage area, neither would they degrade a critical natural habitat. Adani officials say these statements are too generic and of no consequence, but the mere fact that the banks have been forced to publicly respond at all, should cause them some concern. Right now the campaigners are focused on getting similar statements from the most likely financiers of Adani – Australia's four biggest banks – Westpac, NAB, ANZ and CommBank. There are social

LOCAL INITIATIVES: At Bowen town, near Abbot Point, the Adani Group has sponsored gleaming new buses for "Police-Citizens Youth Clubs".



GREENPEACE

FROM MINE TO PORT: A train enters the headland leading to the Abbot Point terminal, which Adani bought in 2011 for \$2 billion

media campaigns, on-the-ground events and even face-to-face branch-by-branch visits that are on, to shame the banks and their officials into declaring that they will not fund anything that threatens the Reef.

But for Adani, an even bigger enemy than the environmental activists are market forces. After a decade that saw coal prices more than triple to over \$140 a tonne, they are now in the dumps, at just over \$67 a tonne, and Adani's is one of the very few mining companies still making big coal investments. Most are making quick exits. For example, four months ago, mining heavyweight Rio Tinto sold a Mozambique coal mine it had bought for over \$3 billion for just \$50 million – and the Indian public sector consortium ICVL that bought it is yet to find a way to make money, because coal prices today do not cover its cash cost of production!

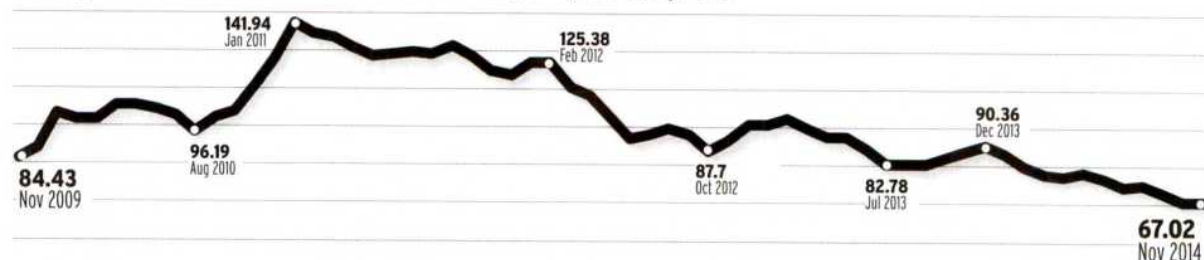
Opinion is divided on where exactly the prices are



THE ABBOTT POINT PORT: Adani needs to invest about \$3.5 billion to build a railway line to Abbot Point and to create a terminal there to handle the full volume of 60 million tonnes of coal a year that the mine will produce once the ramp-up is complete by 2022

PRICING PAINS

Coal prices have almost halved since touching a high in early 2011



2009 Monthly price of Australian thermal coal in US dollars per metric tonne

Source: World Bank Commodities Price Data

2014

headed. There are those who say that prices during the early years of this decade were an aberration and one is not likely to see them again because coal is now entering a phase of structural demand decline. Europe's coal consumption has been declining rapidly and, by 2020, it is expected to be 26 per cent lower than what it is today; the US is set to follow, and even China's scorching consumption growth is now considered a thing of the past as the country adjusts its growth rate downwards, reduces the energy-intensity of its GDP, and adopts policies that reduce pollution and increase power plant efficiency. In the view

of coal sceptics, coal has always traded around the \$30-40 a tonne mark and the crazy period started in 2003 and ended in 2011.

But there are others who argue that what we are witnessing is merely a cyclical downturn and coal will be king again, as India and other developing countries ramp up power production even as China moderates its consumption growth. Which of these scenarios plays out will determine whether Adani's gamble will pay off. If coal price doesn't move up significantly, the Galilee Basin projects in general would find it difficult to get financial backers and even if Adani pushes through the Carmichael project somehow, with its high infrastructure investments in rail lines and ports, it could fail. But on the other hand, if prices were to move up and the Galilee Basin projects come online, viability may no longer be a question mark, though the additional supply itself could cap the price rise and put some pressure on margins.

ON THE AGENDA Prime Minister Narendra Modi with his Australian counterpart Tony Abbott in Canberra during the G20 summit in November



GETTY IMAGES

The Game Plan

The man whose direct responsibility it is to balance these concerns and get the project off the ground is 43-year-old Jeyakumar Janakraj (or JJ as he is known in Australian mining circles), CEO of Adani Mining Australia. Janakraj has been a mining man all his working life (he worked with Vedanta for 18 years, and was the president of Hindustan Zinc), and considers the trenchant opposition to the project from the global environmental movement and from many in the local communities only to be expected. "They have got a job, and they are doing their job; we have got a job, and we need to do our job," he says, adding: "Australia has gone through this in the

MODI'S AUSTRALIA VISIT SAW BIG ANNOUNCEMENTS BEING MADE ABOUT QUEENSLAND CHANNELLING HUNDREDS OF MILLIONS OF DOLLARS INTO ADANI'S RAIL PROJECT AND STATE BANK OF INDIA SIGNING AN MOU FOR A \$1 BILLION LOAN TO ADANI'S MINING PROJECT

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TIM BUCKLEY

Director of Energy Finance Studies, Australasia/ IEEFA

"THE CHINESE GOVERNMENT IS PROPOSING TO BAN THE IMPORT OF ALL HIGH-ASH, HIGH-SULPHUR THERMAL COAL. THIS WOULD MOST LIKELY PRECLUDE CHINA AS AN END MARKET FOR THE GALILEE COAL"



most rigorous way (before approving it)."

The job that Janakraj has got to do is challenging, to put it mildly, but there is no doubt that he is remarkably upbeat. He has reason to be. Just two years ago, it looked as if the Indian project in the Galilee Basin that could move ahead the fastest was the Alpha One project of GVK, which has Gina Reinhardt, Australia's most resourceful – and colourful – mining magnate, as a partner. But GVK has since then stumbled and fallen behind, while Adani has steamed ahead – so much so that during the G20 summit when Indian Prime Minister Narendra Modi was in Brisbane and major announcements were made about Queensland channelling hundreds of millions of dollars into Adani's rail project, and State Bank of India (SBI) signing an MoU for a \$1 billion loan to the mining project, GVK officials were going out of their way to escape media attention. In fact, GVK officials' standard reply to questions was that their offices were shut down due to the G20 summit and everyone was travelling, and hence not available for comment! In October, GVK also defaulted on a \$500 million payment it had to make to Reinhardt for the mines it had bought from her, forcing her company to announce a write-off of that amount.

Janakraj believes that although the project is delayed and three years away from first coal, significant progress has been made. "We have got about 11.05 billion tonnes of JORC-certified coal resources, and 1 billion tonnes of reserves themselves. ('Reserves' are coal that is extractable at a known cost, while 'resources' are an estimate of undiscovered coal theoretically present in an area, usually calculated in line with globally accepted guidelines of the Joint Ore Reserves Committee. Banks normally fund a project on the basis of reserves, and not resources – Editor). People do not have this kind of resource. And this was not achieved overnight, but through three years of drilling and exploration unparalleled anywhere. So our investment is growing, but our valuation is growing bigger, despite coal prices going down. At financial close next year, our mine will be valued more than \$3 to 3.5 billion (on investments of roughly 1 billion)."

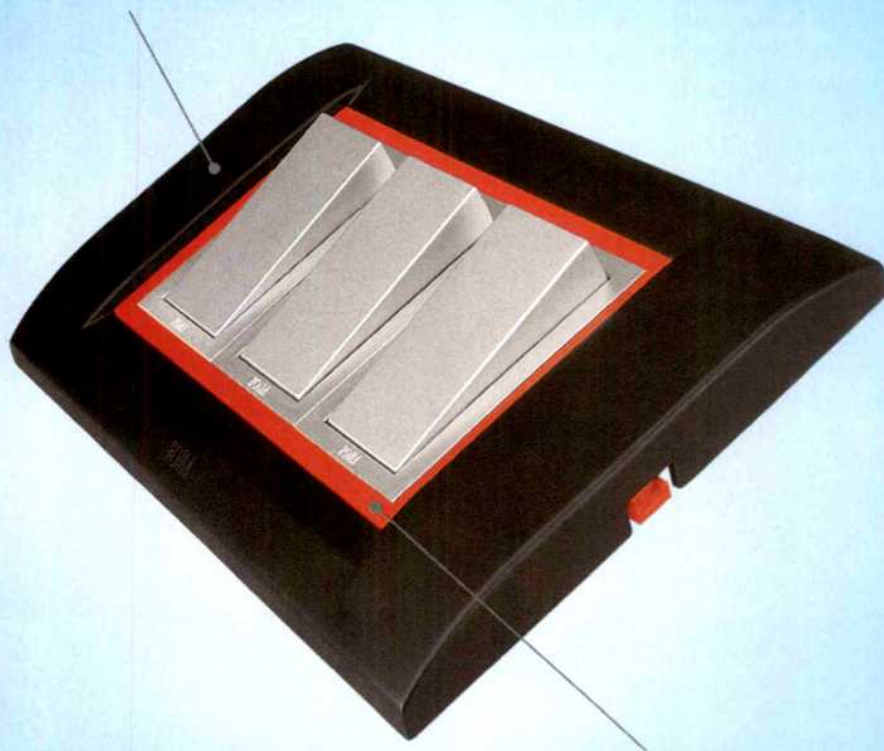
In terms of cash cost of production, Janakraj says his company will end up in the first quartile of cheapest mines worldwide. If that is correct, it would put Adani's cash cost much below \$50 a tonne free on board, or inclusive of transport cost to Abbot Point. According to the International Energy Agency (IEA), cash costs determine whether a particular mine is profitable or not, since capital costs in coal mining are low compared to oil or gas and a margin of a few dollars a tonne is enough to generate an acceptable return on investment. However, whether this reasoning would apply to a greenfield project in a remote area with very large infrastructure investment requirements is an open question.

One reason why the costs are so low, says Janakraj, is that because the market is down, the best equipment, contractors and people are available at reasonable prices. But if the cash cost is so low, why have these mines in the Galilee Basin remained untapped for so long? "The issue has always been infrastructure," answers Janakraj, adding: "Since we have got the scale, we are creating infrastructure not just for us, but for other mining companies too. We have got an MoU process running, and there are a number of people who have signed MoUs with us, including those in the Galilee Basin."

In other words, for the Carmichael project, it is critical that other mining companies sign up to share the cost of its rail and port build-out. And that will happen only when everyone believes that the project is indeed proceeding

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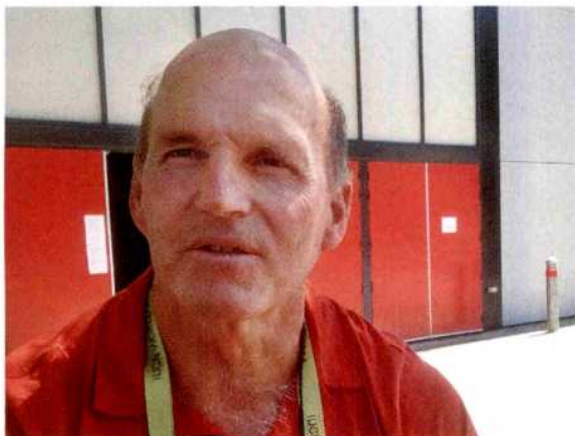
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apace. "It is all a chicken and egg situation... when you execute well, people will always come to you. We have to do the right solution. We are doing a standard gauge which is expandable, and which will ultimately reduce the opex [operating expenditure] cost."

He sums up his challenge this way: "A lot of talk has happened about Galilee Basin. We do not want to talk. We want to make progress, slow and steady, and de-risk the overall business model. Our business model is not just the mine, but the entire value chain. How to optimise the value chain and minimise the capital expenditure in terms of capex ratio on mining and infrastructure; how to get third parties in; how to spur this whole growth in Galilee Basin? The government's thought process and our thought process are completely aligned. A lot of people will come. The question is who will come in first." Momentum, and the popular



TONY FONTES

Founder/ OUCH (Order of Underwater Coral Heroes), at a meeting of the Fight for the Reef group

"THE END OF THE STORY IS YET TO BE WRITTEN, AND I AM GOING TO ASK YOUR HELP TO WRITE THE END OF THE STORY"

perception that the project is indeed moving ahead, is most critical for Adani – and that explains why he wanted a high-impact public announcement of the \$1 billion loan from SBI, and the funnelling of money into the rail project by the Queensland government, during the G20 summit in Brisbane.

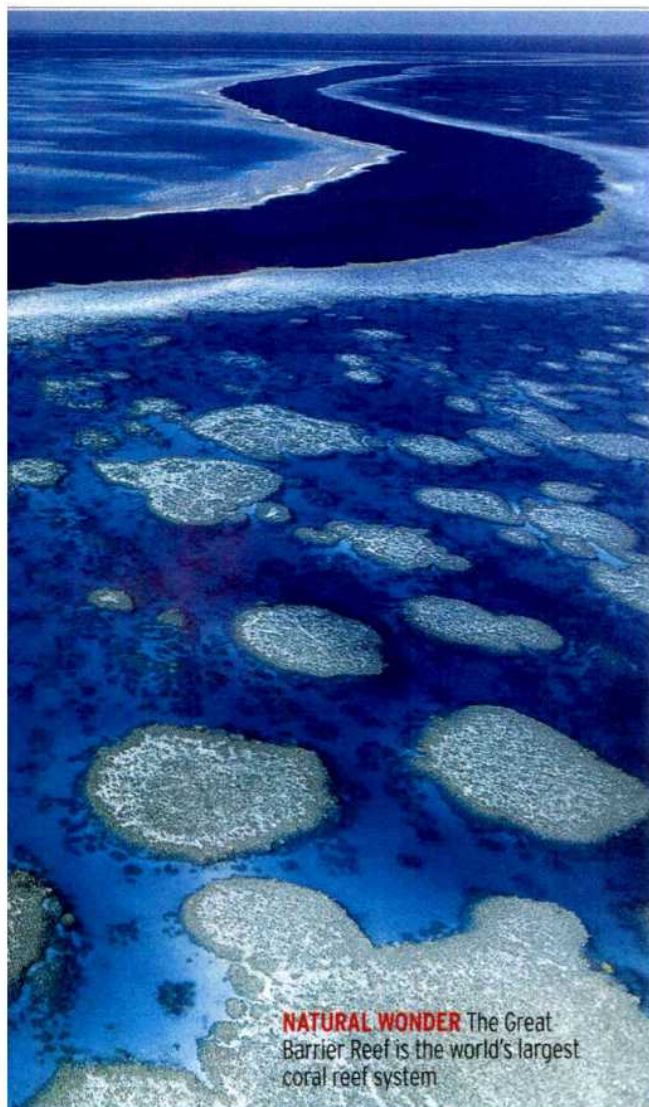
The Opponents

On a sunny November day in Airlie beach in the achingly beautiful Whitsundays region, which calls itself the "Heart of the Reef", there is anger and frustration at the way the right-wing Queensland government has been pushing the Adani project through.



Their concern mostly is the danger the port expansions at Abbot Point and elsewhere in the region pose to the health of the reef, to the quality of the water surrounding the Whitsunday islands, and to tourism which, apart from sugar, is the mainstay of the region.

According to the latest report of the Great Barrier Reef Marine Park Authority published in 2014, "the overall outlook for the Great Barrier Reef is poor, has worsened since 2009 [when the previous report came out] and is expected to further deteriorate in the future. Greater reductions of all threats at all levels... are required to prevent the projected declines in the Great Barrier Reef and to improve its capacity to recover." So any additional perceived threat



THE ENVIRONMENTALISTS HAVE RUN A CAMPAIGN AGAINST ADANI'S PLANS, WHICH INVOLVE DREDGING AND DUMPING 3 MILLION CUBIC METRES OF SPOIL IN THE GREAT BARRIER REEF WORLD HERITAGE AREA

ecosystem of marine life in the region!" Sandra Williams, another resident who is part of the movement, questions the original decision of the Great Barrier Reef Marine Park Authority to allow dumping in the sea, against the advice of most of its scientists. The Australian Broadcasting Corporation even did a long documentary on how the decision process within the Authority was vitiated, with the concerns of marine scientists being brushed aside. Al Grundy, a tourism operator in the region, says there has been a serious decline in water quality in the region, and the developments along the coast are partly to blame.

But not all residents of the region are up against the project. At Bowen, another town in Whitsundays that is closer to Abbot Point, there are many who believe that mining in the Galilee Basin may not be a bad idea. Bowen gets less tourists, has more unemployment and is thirsty for more opportunities. So as a group of activists were finishing their discussions with this writer in a local restaurant, an old lady who had been listening in, walked up rather agitatedly to say: "I hope the project moves ahead. We need the jobs."

The Adani group has been smart enough to sense this difference in outlook, and build on it. Over the last few months, it has been running television ads in local channels; holding public meetings at Bowen with Captain Sandeep Mehta, CEO of Adani Ports & SEZ, taking questions; and even sponsoring gleaming new buses for the "Police-Citizens Youth Clubs" of Bowen.

Jobs are indeed the reason that politicians cite for supporting the project, but the numbers don't hold up, say locals who are opposed to it. By Adani's own early estimates, the Carmichael mine project will generate only about 8,500 direct jobs in all – 3,500 of them permanent positions, and 5,000 construction jobs that will last only as long as it takes to build the mine and the infrastructure around it. By contrast, tourism in the region generates 65,000 direct jobs, while bringing in \$6 billion in annual revenue. In other words, the employment intensity of mining is so low as to be inconsequential, according to those opposed to the projects.

To top it all, say the activists, the Australian govern-

is something that draws global attention and ire. Anyone who has ever been to the Great Barrier Reef (a short two-hour boat ride away from Airlie Beach) cannot but be awed by the delicate wonder of probably the most spectacular ecosystem in the world.

Airlie Beach is 100 km south of Abbot Point, and the people know that Adani's Carmichael project is just the front end of a rather long train coming their way, carrying coal. Once this project is through, there will be five more coming up in the Galilee Basin, all looking to take out their coal through ports in the region. Kirsten Grace, one of the organisers of the Whitsunday Residents Against Dumping, says their concerns over Abbot Point persist, even after the decision to dump the dredge spoil on wetland rather than at sea. "We know what happened at Gladstone (another nearby port) a few years ago, where a bund wall that was built to keep the dredge spoil away from the sea leaked and killed off the entire fishing industry there. They are talking about doing the same thing here. We are in a cyclone zone, and you are dumping it on wetland, which is part of the

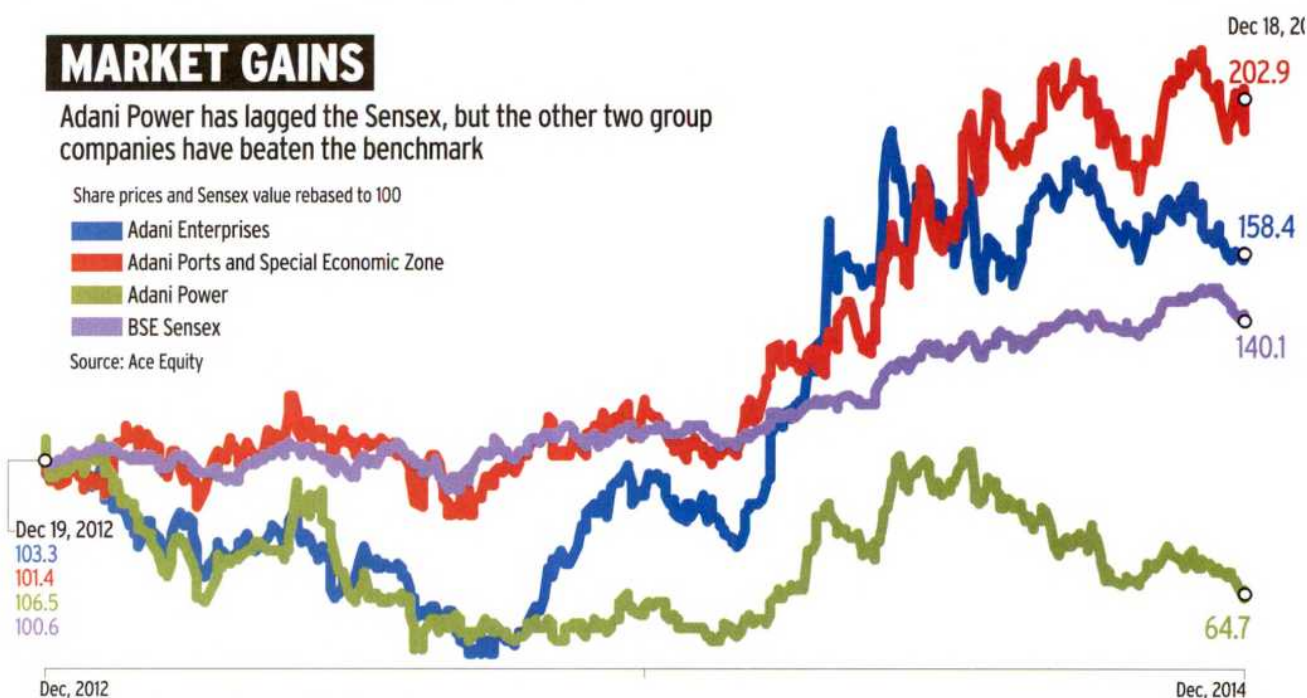
MARKET GAINS

Adani Power has lagged the Sensex, but the other two group companies have beaten the benchmark

Share prices and Sensex value rebased to 100

Adani Enterprises
Adani Ports and Special Economic Zone
Adani Power
BSE Sensex

Source: Ace Equity

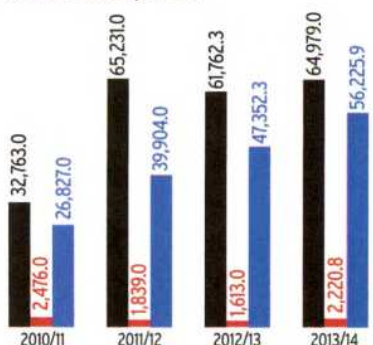


KEY FINANCIALS

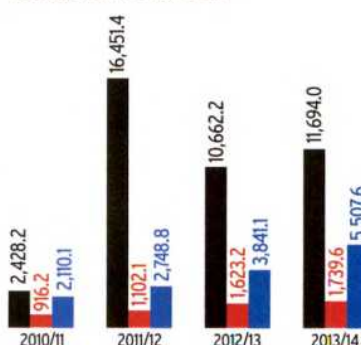
While revenue is growing, profitability and rising debt are areas of concern

Total Debt Profit after tax Total Revenue

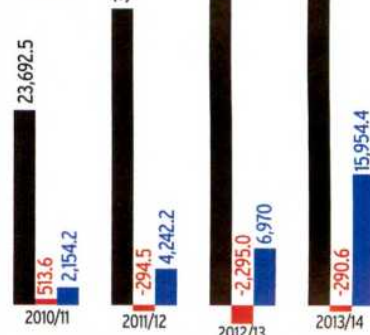
Adani Enterprises



Adani Ports and SEZ



Adani Power



Consolidated data; Figures in ₹ crore; Total debt includes both long-term and short-term borrowings

Source: Annual reports

ment has recently relaxed requirements for what is called the 457 visa, under which companies can bring in workers from abroad. Adani has already appointed Korean company POSCO as its procurement and construction contractor for the rail project, and the residents believe that it is likely to bring in Korean workers. Even mining jobs are not a certainty for locals, with companies increasingly adopting "fly-in, fly-out" methods to organise work. What this means is that companies fly in workers from major cities such as Brisbane, who work 10 to 12-hour shifts for a fortnight or so in the mines while staying in one-bedroom camps with common facilities set up by the companies

close to the mines, and then they go back to the cities and their families for rest and recuperation, before the cycle starts again. This reduces costs for the companies, who no longer have the hassle of developing entire townships with hospitals, schools etcetera, to attract workers and their families. However, this creates havoc in the family life of miners and hollows out the mining towns, say critics.

What gives the local opponents of the mining projects greater visibility and impact is the way they have used social media, and also the way they have plugged into global and national movements fighting against fossil fuels, climate change, and threats to wildlife



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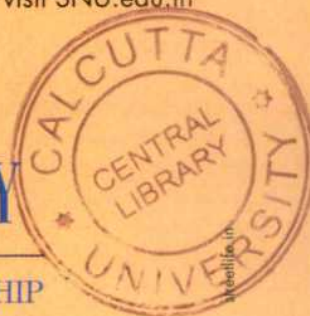
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and world heritage. From World Wildlife Fund to Greenpeace to the Rainforest Action Network to the Institute for Energy Economics and Financial Analysis (IEEFA) and the Australian Marine Conservation Society, they have been able to knit together a strong platform from which to take on three governments (Australian federal government, Indian central government and Queensland provincial government), a range of mining interests, and also some of the biggest global financial conglomerates.

Many of them came together at the World Parks Conference in Sydney's Olympic Park on the evening of November 17, at the same time as Prime Minister Narendra Modi was addressing a massive gathering of non-resident Indians at a stadium just a stone's throw away. The day had begun badly for the group gathered under the common banner "Fight for the Reef". There was a frisson of disappointment coursing through the gathering, when the news of the Queensland government deciding to channel hundreds of millions of dollars into the rail project of Adani reached them. And also, of course, that of SBI deciding to sign the MoU for the \$1 billion dollar loan to the mine project. They had all been focused on making the Galilee Basin projects unfundable for both economic and environmental reasons, and now these two decisions suddenly moved that goal post farther away.

The lead presenter at the Fight for the Reef meeting was Tony Fontes, a diving instructor and founder of OUCH (Order of Underwater Coral Heroes) and this is what he had to tell the gathering: "The end of the story is yet to be written, and I am going to ask your help to write the end of the story."

Tim Buckley, Director of Energy Finance Studies, Australasia for IEEFA, is one of those whose studies on the Galilee Basin projects are widely quoted in the campaigns. Sydney-based Buckley, a 25-year veteran of the financial markets who was a top-rated equity analyst before joining IEEFA, is convinced that both the Adani and GVK projects are financially unviable, and there is a crucial argument

RAPID GROWTH

Adani Group has quickly expanded over the past year

November 2014: Adani Power buys Korba West Power from Avantha Power & Infrastructure for ₹4,200 crore

August 2014: Adani Power acquires Udupi Power Corporation for ₹6,000 crore from Lanco Infratech

July 2014: Adani Ports and SEZ gets environment and coastal regulation zone clearance from the Centre for its 8,481 hectares SEZ in Mundra

July 2014: Adani Ports and SEZ signs pact with the CMA CGM Group of France to develop a new container terminal at Mundra Port

May 2014: Adani Ports and SEZ buys Dhamra Port Company from L&T Infrastructure Development Projects and Tata Steel for ₹5,500 crore

December 2013: Adani Ports and SEZ completes ₹400 crore steam coal terminal at Vishakhapatnam port eight months ahead of schedule

Source: Company press releases

that he makes. The coal quality of Carmichael, he says, is about 15 per cent below the Newcastle benchmark of 6,000 kilocalories/kg, or only about 5,200 Kcal. What that means is that the thermal coal from Galilee is likely to be valued at a 30 per cent discount on the Newcastle average. "Adani's own documents confirm that the energy content of Carmichael coal is 5,200 Kcal, and there is indeed a significant price difference as the energy content of coal goes down. So if coal prices do not move up very significantly, the Adani project will have a tough time finding financial backers commercially. But this is not all, according to Buckley. "The Chinese government is proposing to ban the import of all high-ash, high-sulphur thermal coal," he says, adding: "This would most likely preclude China as an end market for the Galilee coal, given its 25-30 per cent ash content, unless substantial washing is undertaken, which is difficult given the massive amounts of water required for this."

The State of Play

While the Adani group was busy winning financial support from the Queensland government for its project, it had to face a googly from a very unlikely quarter: the Indian government. On November 12, the Union Minister of State for Power and Coal, Piyush Goyal, made a statement that was remarkable for its ambition. In remarks made during the India Economic Summit in New Delhi, he said, "Possibly in the next two or three years, we should be able to stop imports of thermal

coal." The reason, according to him, is that the government is determined to more than double the output of the public sector Coal India to 1 billion tonnes by 2019. If this were indeed to pass, the Galilee Basin coal projects would be dead in the water, because without India as a major international buyer of coal, prices would have little chance of recovery and no amount of financial support from Queensland government would be able to make them fly.

But can the Indian government actually step up coal

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PIYUSH GOYAL

Union Minister of State for Power and Coal

"POSSIBLY IN THE NEXT TWO OR THREE YEARS, WE SHOULD BE ABLE TO STOP IMPORTS OF THERMAL COAL"

production at that rate, adding 100 million additional tonnes a year, for five years? It may not be impossible – as it seems to be – for two reasons. One, India does have the coal deposits to increase production to that extent. Second, even bigger feats have been achieved elsewhere – between 2000 and 2012, China increased its production by about 200 million tonnes every year, taking the total up from 1.5 billion tonnes to 4 billion tonnes. So would India be able to do at least half as much? No, if you go by the assumptions underpinning the Adani project. The group believes that India's coal imports are poised to shoot up to at least 300 million tonnes a year from 126 million tonnes last year, as it steps up its power generation. Either Goyal or Adani is wrong, but we won't know who, for a while yet.

But if the Goyal statement was bad news, more heartening vibes were to come from another quarter soon enough: The IEA, the organisation that does long-range demand and supply projections for everything related to energy. In its latest Energy Outlook report released in

November, the IEA made its projections for coal under three scenarios of differing climate change and emissions policies. The first is called the Current Policies scenario, which takes into account only those policies and implementing measures that had been formally adopted by countries by mid-2014. The New Policies scenario, by contrast, takes into account also those policies that have been announced, but not yet formally adopted. The third, 450 scenario, takes an outcome-based approach, in the sense that it takes into account policies that will be necessary if the rise in long-term average global temperature is to be limited to 2 degrees Celsius.

As can be expected, the demand for, and the price of coal varies wildly under these scenarios. In fact, coal is subject to far greater price risk than either oil or gas, due to its emission intensity. According to the IEA, the demand could vary from 7,098 million tonnes under the Current Policies scenario, to 2,907 million tonnes under the 450 Scenario by 2040. But it treats the New Policies as the most likely scenario, and under that, the price it projects for coal in 2020 is this: over \$100 a tonne. By 2040, the price could marginally rise to about \$110. If you apply a discount for the Galilee coal, the price could come down to anywhere from \$70 to \$90 a tonne. These projections show China's demand plateauing in the mid-2020s and India overtaking it in 2025. They also support two conclusions: one, coal price jumps of the kind we saw in the past are history, and two, there is still growth to be had, especially in India, and that could continue to drive up prices, though at a much slower pace.

So where does that leave Adani and his backers on the one hand, and all those who are dead set on stopping them, on the other? Adani's bets are essentially four: one, that Indian demand for imported coal is about to see a dramatic growth unlike what Goyal suggests; two, that new carbon emission standards are unlikely to be in place to keep global temperature increase to below 2 degree Celsius; three, that bankers will not let environmental concerns come in the way of business decisions; and four, that global prices are about to recover and will be well on their way to \$100 a tonne by the time Carmichael mines its first coal by the end of 2017. The die is cast – and may the better cause win! ♦

The author can be contacted at tonyjoseph@gmail.com and on Twitter @tjoseph0010



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BUSINESS REGULATIONS:

Key for Catalyzing Investments and

OPPORTUNITIES

- India ranked 142 out of 189 countries in Ease of Doing Business Index 2015. While India ranks high (No.7) on Protecting Minority Investors, simplifying the business regulations can hugely improve India's overall rank.¹
- Huge untapped potential to attract FDI across manufacturing, infrastructure, agribusiness and services.
 - During 2004-13, India received USD 258 billion net FDI inflows, compared to USD 1.65 trillion by China².
- Progressive tax regime for efficient resources allocation, and to reinvigorate the manufacturing sector.
- Overhauling the labour laws to act as an important enabler for industrial development and employment generation.
- e-Governance initiatives remain unexplored in important areas like Legal and Judiciary, Telemedicine, Healthcare amongst others.

DIRECT BENEFITS FOR THE INDIAN ECONOMY

- Expeditious and timely approval process, including forest and environmental clearances, will expedite on-ground execution of projects, revive the investment cycle and result in huge job creation.
- 0.9-1.7% potential increase in GDP annually and 3.2-6.3% y-o-y gains in exports estimated through comprehensive rollout of GST alone.³
- Over Rs. 1 trillion of taxes locked up in litigation in indirect taxes⁴. A comprehensive plan to reduce litigation and expedite dispute resolution will tremendously boost investor sentiment.
- Each 1% increase in FDI inflows can add about 0.4% to India's GDP growth.⁵
- Improved governance interface between Government and industry will boost entrepreneurial activity through simplified procedures.

REFORMS IN THE SHORT TERM: RECOMMENDATIONS

- Clarity in FDI/ FII policy across sectors, with better Centre-State coordination to stimulate investments and improve business confidence.
- Review and update 105 archaic laws and business regulations to make them relevant to the current business context and boost investments.⁶
- Improve labour market vibrancy by rationalising laws to create a conducive business environment
 - Reduce multiplicity of legislation by grouping laws under 4 broad categories: industrial relations, wages, employment standards and social security.
 - Review laws on process for rationalizing workforce and factory closure.
- Reduce the number of procedures and approvals involved in starting and doing business by creating a single window approval mechanism in each state.
- Prioritize key reform-oriented bills in the Winter Session of the Parliament to improve business sentiment, include Insurance Laws (Amendment) Bill, 2008, The Factories (Amendment) Bill, 2014, amongst others.
- Replicate best practices of IT and ITeS sectors in ongoing e-Governance projects through Public Private Partnership models.
- Implement 3P- new agreement for implementing sectoral contractual frameworks, and bidding guidelines for infrastructure acceleration.

We invite valued inputs from bankers, bureaucrats, economists, industry leaders and regulatory agencies

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Source: ¹World Bank; ²UNCTAD - FDI inflows, by region and economy, 1990-2013; ³National Council

vital REFORMS

Capital Formation



Rana Kapoor
President, ASSOCHAM

“ A refreshed, strong and stable regulatory and business environment is critical for revitalizing the Indian economy and boosting investor confidence. A dedicated focus on building trust, transparency, clarity, consistency and predictability in the laws of the land and business regulations, will hugely encourage investors, both foreign and domestic, to invest in the India growth story and help actualize the 'Make in India' initiative combined with Create in India. ”

REFORMS IN THE MEDIUM - LONG TERM: RECOMMENDATIONS

Simplify the land acquisition process for investors by creating land banks and reorienting the Land Acquisition, Rehabilitation and Resettlement Act, 2013 Act, with support from State Governments.

- Expand Industrial clusters/corridors model in all states with dedicated land and tailored laws for a particular cluster.

Create online government to business (G2B) interfaces at the State level with the eBiz platform as a template.

Roll out a single Goods and Services Tax (GST) through consensus of all states, as well as reorient the Direct Taxes Code to create a business friendly tax structure.

Avoid retrospective application of tax laws and strengthen the scope of advance ruling mechanism for cross border transactions to improve investor confidence.

Foster swift and transparent dispute resolution mechanism, including further developing e-courts and e-rulings.

Create an enabling regulatory environment across all states to effectively implement the “Swachh Bharat” campaign by calibrating existing environmental laws.

Develop deeper equity and debt (both corporate & structured) capital markets to facilitate increased FDI and FII inflows.

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plied Economic Research; ⁴CAG (Mar 2013); ⁵Economic Times, Sep 23, 2014; ⁶ASSOCHAM analysis



Overview

OVERALL

Best Large Bank / HDFC Bank

Best Mid-sized Bank / IndusInd Bank

Best Small Bank / J.P. Morgan India

GROWTH

Large / HDFC Bank

Mid-sized / RBL (erstwhile Ratnakar Bank)

Small / Barclays

ASSET QUALITY

Large / YES Bank

Mid-sized / RBS

Small / BNP Paribas &
Bank of America

THE WINNERS

PRODUCTIVITY & EFFICIENCY

Large / UCO Bank

Mid-sized / J&K Bank

Small / J.P. Morgan India

**CONSISTENT
PERFORMER**
YES Bank

A BT-KPMG STUDY

INDIA'S BEST BANKS

INDIA'S BANKING LANDSCAPE IS SET TO CHANGE WITH THE IMPENDING ENTRY OF MANY LENDERS. *BUSINESS TODAY'S* 2014 LISTING OF THE COUNTRY'S BEST BANKS CELEBRATES THOSE WHO LOOK THE MOST READY TO FACE THE CHALLENGES.

It has been a multiple whammy of sorts for the Indian banking industry in recent years. Growth, profitability and asset quality have all been hit by slowing economic growth and high interest rates. Yet, some banks have continued to surge ahead despite the macroeconomic turbulence. The annual BT-KPMG Best Banks study discovers the best in class.

HDFC Bank has emerged as the winner for the second consecutive year. In a major surprise, YES Bank has entered the big boys' club and secured the fifth spot in the large banks category. State-run banks continue to be laggards – only UCO Bank and J&K Bank have emerged winners in two of the 13 award categories.

But the winners cannot rest on their laurels. Winds of change will sweep the banking sector in the next few years, altering the rules of the game. In 2015, most established lenders could face competition from payment

banks and small banks. Two new banks will also enter the arena soon – microfinance lender Bandhan Financial and infrastructure finance company IDFC have received licences from the Reserve Bank of India (RBI). "The new set of banking players will bring in new competencies," says Romesh Sobti, CEO of IndusInd Bank.

Most banks are also turning towards digital banking, which promises to structurally change the banking landscape. Leading from the front is HDFC Bank (see *Digital Banker* on page 58).

Meanwhile, RBI Governor Raghuram Rajan has a long list of reforms for the sector. These range from reviewing the archaic priority sector lending norms to the development of the debt market. These reforms will offer opportunities as well as challenges for banks.

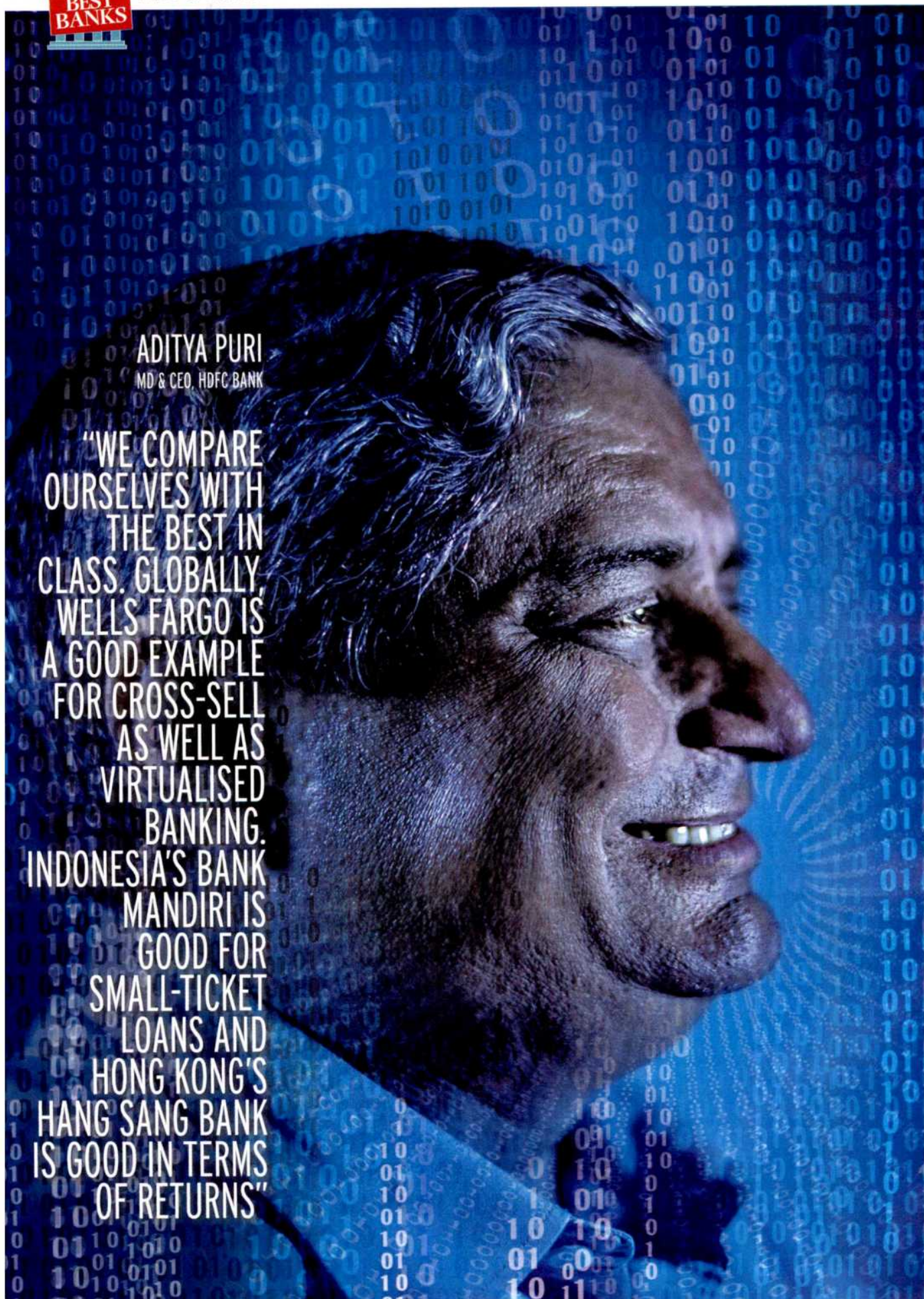
Clearly, Indian banks are being forced to learn new skills. Read on to discover how the winners have raised the bar to thrive in these changing times. ♦



HDFC Bank

ADITYA PURI
MD & CEO, HDFC BANK

"WE COMPARE
OURSELVES WITH
THE BEST IN
CLASS. GLOBALLY,
WELLS FARGO IS
A GOOD EXAMPLE
FOR CROSS-SELL
AS WELL AS
VIRTUALISED
BANKING.
INDONESIA'S BANK
MANDIRI IS
GOOD FOR
SMALL-TICKET
LOANS AND
HONG KONG'S
HANG SANG BANK
IS GOOD IN TERMS
OF RETURNS"



OVERALL WINNER (LARGE BANK)

DIGITAL BANKER

HDFC BANK IS TRANSFORMING ITSELF FROM A BRICK-AND-MORTAR ENTITY INTO A FULL-SCALE DIGITAL BANK. By ANAND ADHIKARI

In November, Aditya Puri made a trip to Silicon Valley, home to the world's largest technology companies from Apple and eBay to Facebook and Google. The MD & CEO of India's second-largest private bank, HDFC Bank, was keen to study high-tech innovations and disruptive technologies that could find application in the Indian banking industry. "I met a lot of technology geeks," says Puri, 64, with a grin. In a two-day packed schedule, he visited

MasterCard Innovations, Khosla Ventures, Singtel Technologies and Silicon Valley Bank, among others. His itinerary also included a visit to technology giant Apple Inc. A month ago, the iPhone and iPad maker had launched its mobile payment solution 'Apple Pay' in the US and some other markets. This new product allows contactless payment through iPhone 6 in merchant establishments.

The Indian financial services market is yet to see the introduction of such cutting-edge technology, but Puri

PHOTOGRAPH BY VIVAN MEHRA

promises to change things. "We have the capability to do whatever Apple Pay or PayPal can do," he says, sitting in his boardroom on the sixth floor of HDFC House at central Mumbai. PayPal is owned by eBay and is one of the world's largest Internet payment companies. "I will put out my own (mobile) wallet now," says Puri. In the first phase, the bank will be launching a product that will combine debit card and credit card limits under one wallet for payments in a merchant establishment through an application-based system. In the next phase, the bank is working on a contactless payment service using the near field communication (NFC) technology. Indeed, it is similar to what Apple Pay does.

The mobile wallet through NFC technology actually has the potential to replace physical debit and credit cards as there are some 900 million mobile users in

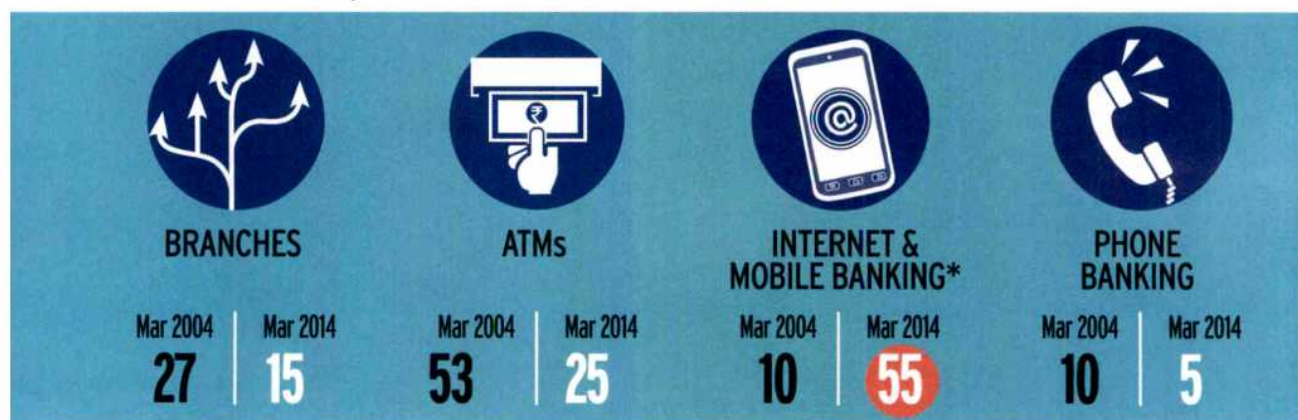
Clearly, Puri is as devoted to HDFC Bank today as he was 20 years ago, when he started building the bank from scratch as the CEO. Currently, Puri is the longest-serving CEO of any bank in India and still has over six years left at the helm. HDFC Bank at present has a balance sheet size of ₹4.91 lakh crore and is the second-largest private sector bank – seventh-largest overall – in the country in terms of total assets.

In the BT-KPMG Best Banks study, HDFC Bank has emerged as the best bank for the second year in a row. ICICI Bank is perched at the second spot but is closing the gap on key financial parameters, including cost to income ratio and capital adequacy ratio. (See *Bridging the Gap*.)

Puri himself is not wasting time in comparisons with other Indian banks. He has identified digital bank-

MORPHING INTO A DIGITAL BANK

Internet and mobile banking now account for more than half of HDFC Bank's transaction volumes



Figures in per cent, Source: HDFC Bank *Internet banking through desktops, tablets and mobile phones

India. So far, the point of sales (POS) network has remained limited because of the costs involved. In a country of over a billion people, the POS system is installed at just over a million merchant establishments. HDFC Bank's own network adds up to 2.15 lakh. However, the new contactless POS machine is expected to be much cheaper and the bank plans a major expansion of its network soon.

HDFC Bank is already a market leader in e-commerce. "Almost 45 per cent of the transactions are on our (debit or credit) cards," says Puri whose bank is a market leader in credit cards. The bank also runs the payment gateway to process electronic transactions. "We are building a digital bank that should be faster in finding out our customer needs through analytics and also provide products, including those not manufactured by us (like mutual funds, insurance, etc.)," says Puri.

ing as the next big opportunity and is focused on creating a world-class Indian bank, something the management had articulated 20 years ago in its vision statement. So where does he look for inspiration? "Globally, Wells Fargo is a good example for cross-sell as well as virtualised banking. Bank Mandiri in Indonesia is very good for small-ticket loans. There are banks in Hong Kong, such as Hang Sang Bank, which are very good in terms of returns," says Puri. "So depending upon each segment, we compare ourselves with whoever is the best in class globally."

Rewarding Shareholders

HDFC Bank has a better return on assets (ROA), at 1.72 per cent, than Hong Kong-based Hang Sang Bank, the bank Puri has set as a benchmark. Today, the bank's return on capital employed (ROCE), at 21.28 per cent,

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THE BIG RURAL EXPANSION

HDFC Bank needs to boost revenues from rural branches

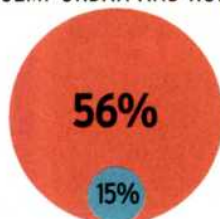
is the best in the Indian banking industry. SBI, the country's largest bank, is way behind with 10.03 per cent, while ICICI Bank has ROCE of 14.28 per cent. The stellar performance by the bank is reflected in its market capitalisation (market cap). HDFC Bank has a market cap of ₹2.23 lakh crore against a balance sheet size of ₹4.91 lakh crore. ICICI Bank, with a much larger balance sheet size (₹5.94 lakh crore) has a market cap of ₹1.99 lakh crore. SBI, whose balance sheet is three and a half times more than that of HDFC, has a market cap of just ₹2.33 lakh crore.

But there are challenges, too. "We feel that the bank will see consolidation phase going forward. This will be also due to the fact that other private banks are ramping up rapidly and offering better returns to customers on their deposits along with better customer service," says Rakesh Shinde, research analyst (banking) at Bonanza Portfolio Ltd. Indeed, mid-sized banks have already started eating into HDFC Bank's current and savings account (CASA) share as a percentage of total deposits. The bank's CASA has fallen from 47.4 per cent to 44.8 per cent in the last one year.

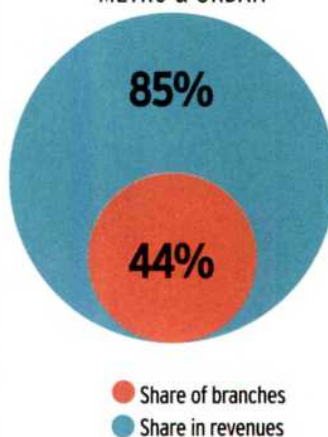
HDFC Bank also needs to boost revenues from rural India. Already, some 55 per cent of HDFC Bank's branches are in the rural and semi-urban areas. The bank is also opening 90 per cent of its new branches outside metros and semi-urban areas. "The share of revenues of semi-urban and rural branches will grow from 15 per cent to 35 per cent in the next five years," says Puri. (See *The Big Rural Expansion*.)

Puri gets his inspiration from Bank Mandiri, the largest bank in Indonesia, which has a sizeable rural presence. In fact, Puri has worked in the last three to

SEMI-URBAN AND RURAL



METRO & URBAN



● Share of branches
● Share in revenues

four years to perfect the rural and semi-urban business model. "It is not by chance you find a virgin rural and semi-urban territory. It must be difficult to go there," says Puri, who asserts that the essence of banking is in taking a calculated risk. The bank has never launched a venture or a product without doing extensive pilot testing. "It took three to four years for us to go rural because we kept testing the products. We have also made our mistakes. But the mistakes are small and so nobody notices it," says Puri.

Virtual Bank

Meanwhile, Puri is busy building a virtual bank. His admiration for the US-based Wells Fargo & Co is well known. Wells Fargo is the world's largest bank in terms of market capitalisation, ahead of JP Morgan Chase and China's ICBC. HDFC Bank actually mirrors Wells Fargo in many respects. It is unaffected by the global slowdown, a consistent performer and is also a darling of investors. Puri is now transforming HDFC Bank into a

digital bank, something Wells Fargo CEO and Chairman John G Stumpf did with his bank. A year ago, Puri assigned the bank's digital initiative to Nitin Chugh, a senior industry professional.

The bank is already a sizable digital bank, stresses Chugh. "There is a very systematic focus within the bank in making customers use and adopt digital channel," says Chugh.

That reflects in the numbers. Today, 85 per cent of the transactions by customers takes place through non-branch channels. The mobile and Internet banking channel contributes almost 55 per cent. (See *Morphing into a Digital Bank*.)

RAKESH SHINDE/ RESEARCH ANALYST (BANKING)/ BONANZA PORTFOLIO

"HDFC BANK WILL SEE CONSOLIDATION PHASE GOING FORWARD. THIS WILL BE ALSO DUE TO THE FACT THAT OTHER PRIVATE BANKS ARE OFFERING BETTER RETURNS TO CUSTOMERS ON THEIR DEPOSITS ALONG WITH BETTER CUSTOMER SERVICE"

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NITIN CHUGH/ HEAD (DIGITAL)/ HDFC BANK

"WE ARE TRYING TO BUILD DIGITAL CAPABILITIES OF OFFERING THE SAME BANKING EXPERIENCE, EASE, LEVEL OF ENGAGEMENT AND PRODUCT COMPREHENSIVENESS THAT WE OFFER FACE-TO-FACE ACROSS OUR ONLINE CHANNELS"

But clearly, digital banking is not about doing routine transactions. A digital bank should be able to offer products online such as opening a bank account or offering loans. "We are trying to build the digital capabilities of offering the same banking experience, ease, level of engagement and product comprehensiveness that we offer face-to-face across online channels," says Chugh. In fact, the bank is almost ready. HDFC Bank has already finished 75 per cent of the work involved. "The basic infrastructure is ready and we have to fine-tune the system," says Puri. HDFC Bank has already invested in data warehousing, analytics, outbound call centres and models for customer relationship management (CRM). "Now we are in a position to launch our most comprehensive offering, which will be in line with global standards whereby everything you can do physically, you can do virtually," says Puri.

Puri wants the customer to be at the centre stage.



"The whole war is going to be over who owns the customers," he says. The bank has been displaying customised product offering through Internet banking, mobile banking and at ATMs. "We have got all the analysis of customers at the back end. We have the offers ready. So when you come to the ATM, they communicate with the customers," says Puri.

Today, HDFC Bank staff in its branches are busy handholding customers that many of the transactions that they do in a branch can be done over the ATM, phone banking and Internet- and mobile-banking. So what does that mean for the future of branches? "The area (serving the population) that the branches cover will become larger and larger," says Puri. The branches will be more involved in acquisition of customers and explaining the fine print in products and servicing, if a customer encounters a problem.

Puri believes that the people-intensity in the banking system will certainly reduce in future. "Once you can issue a valid digital signature, the people can send documents online," he says. That will change the face of Indian banking as and when it happens. ♦

BRIDGING THE GAP

ICICI Bank is closing in on HDFC Bank, the best bank in BT-KPMG Study



PARAMETERS	ICICI BANK	HDFC BANK
Balance sheet size*	5,94,641	4,91,599
Capital adequacy	17.70%	16.07%
Cost to income ratio	0.38	0.46
Growth in fee income	13.76%	12.71%
Growth in operating profit	25.72%	25.66%

*In ₹ crore, Source: BT-KPMG Study

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IndusInd Bank

RACHIT GOSWAMI

SOBTI EFFECT

IndusInd Bank has witnessed dramatic improvement since he took over in 2008

MAR '08

MAR '14

— Return on equity

6.76% 17.48%

— Net interest margin

1.37% 3.71%

— CASA ratio*

15.70% 32.55%

— Cost to income ratio

67.21% 45.71%

— Net NPAs**

2.27% 0.33%

— Capital adequacy

11.91% 13.83%

— Consumer finance

57% 45%

— Corporate finance

43% 55%

*Current and savings account

**Non-performing assets

Source: Annual reports/ presentations

ROMESH SOBTI
MD & CEO, INDUSIND BANK

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OVERALL WINNER (MID-SIZED BANK)

PERFORMANCE SPEAKS

USING TECHNOLOGY AND INNOVATION, ROMESH SOBTI HAS TRANSFORMED INDUSIND BANK IN THE LAST SIX YEARS. **By ANAND ADHIKARI**

Ten new banks were set up in the mid-1990s, after the banking sector was liberalised and new entrants permitted. Only five of them have survived. Of these, three were backed by established institutions: ICICI, HDFC and UTI (which set up Axis Bank). The sole exception is the Hinduja-promoted IndusInd – it has not only survived, but thrived. In the last six years in particular, it has improved on every banking parameter.

The success is underlined by IndusInd Bank being chosen the best mid-sized bank in the *BT-KPMG* Best Bank Study of 2014. (It was similarly ranked in 2011 as well.) A large measure of the credit for its success goes to Romesh Sobti, 64, who took over as Managing Director and CEO in February 2008, moving from ABN AMRO Bank which he then headed. He brought along the then top management team of ABN AMRO as well,

including Sumant Kathpalia, Suhail Chander, K.S. Sridhar and Ramesh Ganesan. Today, IndusInd Bank's capital adequacy ratio is a healthy 13.83 per cent (up from 11.91 per cent in March 2008) and non-performing assets (NPAs) a minuscule 0.33 per cent (down from 2.27 per cent six years back). Net interest margin is 3.71 per cent as against 1.37 per cent when Sobti took over (see *Sobti Effect*).

At that time, the bank had practically no retail products barring vehicle financing, which was close to 60 per cent of its total loan portfolio. (The rest were corporate loans.) "We have grown the vehicle finance book," says Sobti. "It's a profitable core business. We have domain knowledge and we dominate the domain." But he and his team have de-risked the loan portfolio as well, adding several new retail products over the years – loans against property, loans against shares, gold loans, personal loans and business loans. In April 2011, IndusInd Bank also bought Deutsche Bank's credit card business.

Currently, vehicle loans are down to 21 per cent of the total loan portfolio – 16 per cent on commercial vehicles, and five per cent car loans. In all, retail loans, much more diversified than before, comprise 45 per cent of the portfolio, corporate loans making up the rest. The latter is carefully diversified between large, mid-sized and small industries at 29 per cent, 17 per cent and 11 per cent, respectively. Sectors such as power, food and beverages, gems and jewellery and real estate have three per cent exposure each. "We do not want to be a niche bank as those are prone to cyclical risk," says Sobti. "In this market, it pays to be a universal bank. We will work on both sides of the balance sheet – assets and liabilities. We will work with all kinds of clients, products and services." He

choose the denomination of notes they get while withdrawing money at an ATM. It has introduced 'cash on mobile', which enables people to withdraw the money transferred to them without a debit card, by simply keying in a PIN number received over their mobiles. It has a 'quick redeem' scheme which allows credit card users to instantly redeem their points after making a purchase. It was the first to introduce video banking by which a customer can view bank officials while speaking to them. The effort is paying off – IndusInd Bank now has five million customers, getting 50,000 to 55,000 new ones a month against 4,000 to 5,000 five years ago. "But it is not just about getting ideas," Sobti adds. "It is also about translating ideas into real-

PUTTING ON WEIGHT

The mid-sized banks set to join the ₹1,00,000-crore balance sheet club



*Crossed the ₹1,00,000-crore mark following merger with ING Vysya Bank
Figures for March 2014 in ₹ crore; Source: B7-KPMG study

maintains that in the next 12 to 18 months, corporate and retail loans will have a 50:50 ratio. "This will also have a positive impact on interest margins," he adds.

IndusInd Bank is, no doubt, prospering, but competition is strong. Banks which began well after it did, such as YES Bank and Kotak Mahindra Bank, are catching up with their retail offerings. After its recent merger with ING Vysya Bank, Kotak Bank, which began operations only in the mid-2000s, has a branch network of over 1,200 against IndusInd's close to 700 branches. Two more banks will be set up soon by IDFC Ltd and Bandhan Financial Services Ltd. Sobti maintains he is unfazed, but he too is busy scaling up the distribution network. Just 15 months ago, IndusInd had only one branch in Patna; now it has nine and intends to add two more. Until a few years ago, it had eight branches in Gurgaon; now it has 22 and plans to raise the number to 28.

"How do you draw customers if you are a mid-sized bank, low profile and not a big brand," asks Sobti. His actions at IndusInd Bank have answered the question – use technology to create differentiated banking products. "I call it responsive innovation," he says. Thus IndusInd is one of the few banks where customers can

LOOKING AHEAD

IndusInd Bank's focus areas

- Scaling up branches, ATM network
- Sharper focus on geographic, client segmentation
- Payments, especially mobile, and transaction banking
- Growth, diversification of retail assets
- Product innovation for retail customers

ity, which has to be an orchestrated effort."

Sobti is also eyeing new business opportunities. At the customer level, he believes the mobile will grow in importance, ultimately replacing credit and debit cards and point of sale machines. Globally the mobile phone is widely used as a payment instrument. The UK, for instance, has a service where a person's mobile number – linked through a database to his/her account – is enough to make payment into the account. "It will happen here too," he says. "The digital wave will impact the entire payment space. Frugality will be the winner." At the corporate level, asked about acquisitions – IndusInd Bank has so far refrained from making any – he says they are possible only when an entity has acquisition cash and management bandwidth. "We believe we now have both," he adds.

Analysts agree the future is bright for banks like IndusInd. "Public sector banks, which dominate the sector, are starving for lack of capital, with growing NPAs," says Sachin Shah, fund manager at Emkay Global Financial Services Ltd. "This offers an opportunity to private players to increase their market share." ♦

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GROWTH WINNER (MID-SIZED BANK)

IN THE FAST LANE

WITH A NEW MANAGEMENT AT THE HELM, A RESURGENT RBL BANK IS EXPANDING OPERATIONS AT A BRISK PACE. By ANAND ADHIKARI

RBL Bank, a mid-sized lender, is a potential takeover target for some larger banks. Not surprising, considering that the bank has been turned around in the last four years by its Managing Director and CEO, Vishwavir Ahuja. "Many," says Ahuja, when asked whether any bank had approached RBL for a friendly merger.

Indeed, several old private-sector banks have been acquired in recent years. Unlike RBL (formerly Ratnakar Bank), the survival of most of them was at stake because of poor operating performance. Ahuja is confident of the future prospects of his bank. "There is no question of any merger," he says. Clearly, the bank, under a new management since June 2010, which includes foreign bankers, is aiming big.

In the BT-KPMG study, RBL has emerged as a "Growth Winner" among mid-sized banks. It has a balance sheet size of ₹18,198 crore and grew its deposits by 39 per cent and advances by 54 per cent in 2013/14. The three-year compound annual growth rate (CAGR) in deposits as well as advances is over 70 per cent. The fee income jumped 110 per cent in 2013/14. The number of branches has jumped from 80 in 2010 to close to 200 now. "We are very much in the interim phase in our long journey," says Ahuja. RBL, under Ahuja, actually went and bought the credit card business of Royal Bank of Scotland in August 2013. In the last four years, Ahuja has revamped the top management, raised capital from marquee names, rebranded its identity as RBL, and launched Internet banking, among other business initiatives.

RBL focused on small and medium enterprises when Ahuja took over. The total size of the loan book was just ₹900 crore and the bank also had a negative return on equity (ROE) in

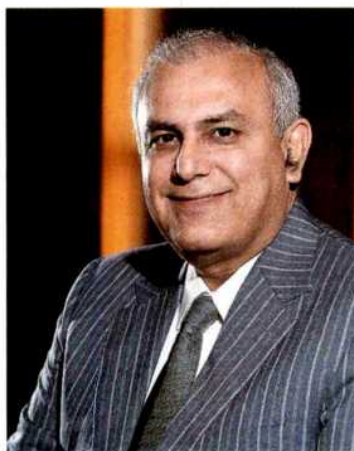
THE URGE TO MERGE

Several old private banks have merged with bigger banks but RBL plans to go it alone

YEAR	TARGET	ACQUIRER
2014	ING Vysya	Kotak Mahindra Bank
2010	Bank of Rajasthan	ICICI Bank
2007	Bharat Overseas Bank	Indian Overseas Bank
2006	Sangli Bank	ICICI Bank
2006	United Western Bank	IDBI Bank
2006	Ganesh Bank	Federal Bank
2003	Nedungadi Bank	Punjab National Bank

2010. Today, all its businesses have been expanding at a scorching pace, expanding anywhere between four and 10 times in the past four years. Its loan book is now about ₹9,835 crore and it has an ROCE of 5.12 per cent. "We want to be a mass-banking institution rather than an urban-centric bank," says Ahuja. The bank already has a presence in 13 states and will expand to 17 states next year and 20 states in 2016.

The next trigger for the bank's growth will come from its IPO, according to Ahuja. "We will raise a significant chunk of capital in the near future," he says. But there are challenges ahead. The big private banks, including HDFC Bank and ICICI Bank, are expanding into rural and semi-urban India, a thrust area for RBL. The Reserve Bank of India's new differentiated licensing mechanism will create new payment and small banks focused on rural and semi-urban centres. But Ahuja remains unfazed. "The competitive landscape will definitely change in the future, but there is enough space for everyone," he says. ♦



RACHIT GOSWAMI

Winning touch: Vishwavir Ahuja, Managing Director and CEO of RBL Bank

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THE 'SMALL' LARGE BANK

YES BANK HAS TAKEN GIANT STRIDES FORWARD, MAKING ITS DEBUT IN THE LARGE BANK CATEGORY IN THE BT-KPMG STUDY. By AJITA SHASHIDHAR

From early 2004, when YES Bank kicked off its operations, until 2010, the new generation private sector lender focused on innovative strategies to survive and grow while keeping costs under control. The bank's version 1.0 took its balance sheet size from zero to more than ₹36,000 crore. During this period the bank also emerged relatively unscathed from the post-2008 global financial crisis that was triggered by the bankruptcy of US investment bank Lehman Brothers.

In version 2.0, from April 2010 onwards, YES Bank focused on scaling up operations gradually with a focus on retail banking. Consequently, its number of branches has swelled from 150 to about 600 spread across the country. Its ATM network has grown from 244 to 1,200. The current balance sheet size is over ₹1,00,000 crore. Rana Kapoor, one of the two founders and also the CEO of the bank, is now gearing up for version 3.0. "As we enter version 3.0, we will be the smallest large private sector bank. Naturally, our aspiration is to evolve as one of the medium-to-large private sector banks by March 2020," says the 57-year-old Kapoor.

If the past is any indicator of the future, it is entirely possible for Kapoor to spring a surprise. In the BT-KPMG Best Banks study, YES Bank has managed to find a place in the large banks category. It is ranked fifth – only HDFC Bank, ICICI Bank, Axis Bank and Bank of Baroda are ahead of it in terms of growth, strength and size. The Mumbai-headquartered bank is the most consistent performer in the last five years and also a winner in the

quality of assets category.

Unlike its peer Kotak Mahindra Bank, which recently acquired ING Vysya Bank, YES Bank so far is a pure organic play with a focus on banking. The bank has not diversified into other business categories such as insurance, mutual funds and private equity. "It may seem like being fashionable to do mergers and acquisitions (M&As) but sometimes when cultures mismatch it can be a bitter experience," says Kapoor.

YES Bank's retail portfolio is 17 to 18 per cent of the total business. "Today, 70 per cent of our human resources are deployed in retail sales and services. YES Bank as a retail brand itself is beginning to resonate," says Kapoor. The bank offers a complete suite of retail products, including mortgages (in alliance with DHFL, a housing finance company), credit cards (with American Express) and consumer loans, small and medium enterprise (SME) loans and micro SME loans.

Kapoor expects the bank's retail foray to be its single largest business by 2020. "We expect retail on the loan side to be roughly about 40 per cent including SME. On the liabilities side, retail deposits should be 60 to 65 per cent by the time we end version 3.0," says Kapoor, who plans to introduce YES Bank's own credit

cards soon.

Kapoor is not unduly perturbed about the growing competition from other banks. "The demanding years of our lifecycle are substantially over," he says. "We are at the inflection point. So, we are making the transition from a medium bank to a large bank." ♦

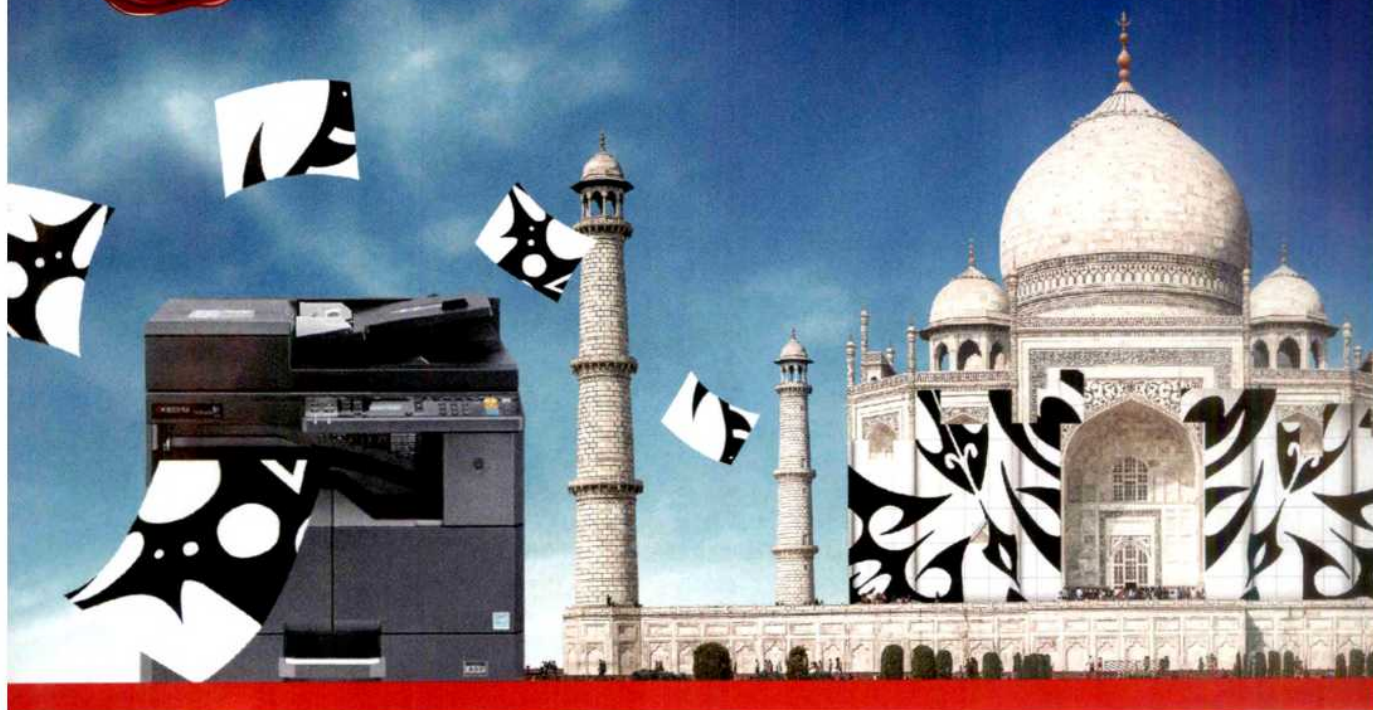


Not worried about the competition: Rana Kapoor, MD and CEO, YES Bank

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THE HIGH FLIERS

A BRIEF LOOK AT THOSE WHO TOPPED IN VARIOUS CATEGORIES

J.P. Morgan Chase

BEST SMALL BANK (OVERALL); PRODUCTIVITY & EFFICIENCY

Going Long on India

Even when the economic scenario in the country was gloomy and foreign investors were bearish on India before the Narendra Modi-led government came to power, US-based J.P. Morgan continued to engage with its MNC clients as well as India Inc. "I would say [that] in a challenging period, we are pretty satisfied with the results the bank has achieved," says Kalpana Morparia, CEO, J.P. Morgan India. In the category of small banks, the bank has the highest return on assets at 2.85 per cent for 2013/14. The return on capital employed is also high at 13.20 per cent. The operating profit and fee income grew by 23.42 and 12.52 per cent, respectively. At 0.14, the cost-to-income ratio is the lowest among foreign banks. Its capital adequacy ratio, at 25.58 per cent, is much higher than the RBI's mandated nine per cent.

J.P. Morgan was also at the forefront of fund-raising efforts by Indian companies. In the largest qualified institutional placement ever by an Indian company, J.P. Morgan helped State Bank of India, the country's largest bank, in raising \$1.27 billion in January 2014. In the international debt market, J.P. Morgan worked with Bharti Airtel and Vedanta to raise close to \$3 billion. "The debt market has been particularly good this year [2014] and last year [2013]. This is because of ample liquidity in the US," said Morparia.

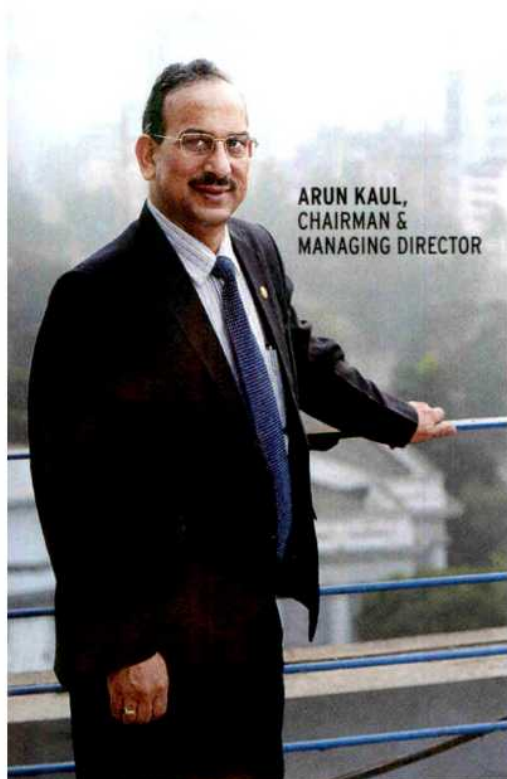
J.P. Morgan also worked as a joint advisor to US private equity fund Kohlberg Kravis Roberts (KKR) in its acquisition of a controlling stake in Alliance Tire Group. Besides, it advised Fortis Healthcare International in the sale of Quality Healthcare to Bupa International.

According to Morparia, India is in a sweet spot for two reasons. First, the change in sentiment, driven by the new government.

"People perceive this government to be reform oriented. Even more important than structural reforms [is] the fact that the government will be able to clear some of the policy logjams..." The second reason is the performance of other emerging markets, especially the slowdown in China. "India stood out like a rock of stability," she says. "We tended to get a disproportionate share of emerging market flows."

ANAND ADHIKARI

KALPANA MORPARIA,
INDIA CEO



ARUN KAUL,
CHAIRMAN &
MANAGING DIRECTOR

SUBIR HALDER

UCO Bank PRODUCTIVITY & EFFICIENCY (LARGE BANK)

Retail Thrust

When Arun Kaul took over the reins of the state-owned UCO Bank in September 2010, it was a loss-making outfit. "A major part of the 1990s saw losses," he says. The current and savings account (CASA) ratio was low, asset quality was below average and its ageing workforce was not in sync with technology.

Kaul focused on expanding the retail business and pared the share of wholesale banking to less than 40 per cent from 75 per cent. Today, about 2,400 ATMs across the country service 49-50 lakh retail customers. CASA has now swelled from about 21 per cent in 2010 to 32 per cent. The Kolkata-based bank also kept its cost-to-income ratio under control. Enhanced use of technology and lower staff count further improved productivity and efficiency. These measures also helped the bank improve its overall ranking in the latest BT-KPMG survey to seven from 20 last year. "Fund costs have come down," says Kaul. "Our operating profit has also improved to about ₹5,000 crore."

ANIK BASU



See interview with Arun Kaul at
business today.in/bestbanks2014-kaul

Read interview with Brijesh Mehra at
business today.in/bestbanks2014-mehra



Royal Bank of Scotland QUALITY OF ASSETS (MID-SIZED BANK)

Safeguarding Assets

A bank's health can be gauged by assessing the quality of its assets. Maintaining quality is not easy given the uncertain economic environment, but the Royal Bank of Scotland (RBS) has managed to do so and stay relatively safe. "A mixture of picking the right sectors, the right clients, working with clients in stress situations to help them navigate difficult economic situations has helped," says Brijesh Mehra, Country Executive for RBS' India operations.

Mehra says the bank looks for two primary things while lending: the borrowers' intent and ability to repay the loans. Intent can be judged from clients' market reputation, along with other factors such as how much equity clients put, their past track record, information about borrowed amount from other sources, etc. As for determining ability, Mehra says it is important to have good judgement. "We do not believe there are good sectors and bad sectors necessarily. In each sector there are winners and people who will be consolidating or growing and there will be others," he says. This approach has helped the bank keep its NPA coverage ratio high at 105.06 and its net NPAs at just -0.05 per cent of total advances.

The bank has been sticking to its strategy of focusing on cross-border wholesale banking serving international clients since 2009, though it has been refining its portfolio. "The crossborder agenda is not possible without some domestic competence in the markets that we operate in," says Mehta.

ARPITA MUKHERJEE



ASHESH SHAH

BRIJESH MEHRA,
COUNTRY EXECUTIVE

J&K Bank
PRODUCTIVITY & EFFICIENCY
(MID-SIZED BANK)

Steady Performer

Last year, when the economy was growing at a sluggish pace, Jammu & Kashmir was one of the few states that performed well. As a result, J&K Bank, which derives a significant part of its business from the state, too benefitted. Not only did the bank register growth in deposits, advances and operating profits, but it also became more productive and efficient in 2013/14.

The bank's business per branch grew from ₹15.04 crore in 2012/13 to ₹16.77 crore in 2013/14, while the business per employee rose from ₹3.36 crore to ₹3.4 crore. The bank, which operates like a private sector lender despite the J&K government owning a 53.17 per cent stake in it, has done better than others on two key performance areas – cost-to-income ratio (0.38 per cent) and return on capital employed (22.34 per cent). Its net NPAs are low (0.22 per cent), and the NPA coverage ratio stands at 83.4 per cent.

However, some of these parameters might see deterioration in the current year because of the devastating floods that hit J&K in September. But despite the hiccups, the bank continues to expand, and recently opened its 800th branch.

MANU KAUSHIK



MUSHTAQ AHMAD,
CHAIRMAN & CEO



JAIDEEP KHANNA,
CEO & COUNTRY HEAD

Barclays Bank
GROWTH (SMALL BANK)

Wooing Corporates

In 2011, Barclays Bank withdrew from retail banking in India and started focusing more on corporate and investment banking. Jaideep Khanna, CEO and Country Head of the UK bank's India operations, says retail banking was acting as a drag on its bottom line. The strategic shift has paid rich dividends. "Any change in strategy takes time to reflect and that change has reflected in 2013/14," says Khanna.

In the BT-KPMG study, Barclays recorded growth in many key parameters including operating profit, deposits and fee income. Its operating profit rose at a compound annual rate of 15.41 per cent over the past three years but surged 141.41 per cent in 2013/14. "This is a result of a sharp focus on clients," says Khanna.

Barclays' efforts to utilise its global network has also helped. "For any corporation that has international aspirations in the markets where we are present, we are a natural partner for them. Similarly, there is a natural connect for US and UK clients who have an interest in India," says Ram Gopal, Chief Operating Officer of corporate and investment banking at Barclays in India.

Khanna says that as the current strategy is working, the bank would continue to focus in areas where it is already present – corporate and investment banking, equities and wealth management. "These will remain our focus and we hope to record significant growth in these areas," says Khanna.

ARPITA MUKHERJEE

Read interview with Jaideep Khanna at
businesstoday.in/bestbanks2014-khanna



BNP Paribas
JOINT WINNER: QUALITY OF ASSETS
(SMALL BANK)

Partnering to Succeed



RACHIT GOSWAMI

JACQUES MICHEL,
CHAIRMAN & CEO

When Jacques Michel shifted from Hong Kong to India as BNP Paribas' Country Manager five years ago, he said that the bank "has a clear ambition to grow both organically and through partnerships as India is a strategic country for the group".

Today, what differentiates BNP from other foreign banks is its local partnerships. The bank runs a home finance business with the Sundaram Group, a life insurance unit with State Bank of India, and an equipment finance venture with SREI Infrastructure.

The bank has also consolidated its position in key areas like corporate banking, investment banking and wealth management. It has delivered on many performance parameters. Its asset quality, for instance, is excellent as it has no NPAs. However, it has some catching up to do in a few other parameters. For instance, its cost-to-income ratio is high at 0.52 compared with 0.14 for J.P. Morgan.

AJITA SHASHIDHAR



NISHIKANT GAMRE

KAKU NAKHATE,
COUNTRY HEAD

Bank of America
JOINT WINNER: QUALITY OF ASSETS
(SMALL BANK)

The Client Is King

Five years into her job at Bank of America, Country Head Kaku Nakhate is focused on building strong ties with corporate clients. "We place a lot more emphasis on treating the client as the prime point of doing business with," she says.

Nakhate says the bank has a robust mechanism to choose clients. "It starts with choosing the right client set, then our idea is to grow with the client and do more and more with the same client," she says.

With a balance sheet size of ₹26,929 crore and an operating profit of ₹1,213 crore in 2013/14, the bank is using its global network to bring more clients to the country, particularly in the light of the government's 'Make in India' initiative. "India is one of the better manufacturing zones which people can think of as an alternative," says Nakhate.

The bank is focusing on increasing its advisory fee business, and is already strong in investment banking as well as equities. Its biggest deal in the past year was the merger of ING Vysya Bank and Kotak Mahindra Bank, where it represented the former. "If you look at the league tables, in fee size we are right up there because we pick deals that we want to do and we play such an important role in those deals that we get a proportionally higher fee compared to other investment banks," says Nakhate. "We have moved away from the strategy of doing business for league tables alone." ♦

AJITA SHASHIDHAR

Read interview with Kaku Nakhate at
businesstoday.in/bestbanks2014-nakhate



HOW THE BANKS WERE RANKED

The data used to rank the banks was taken from published annual reports of the banks for the period 2010/11 to 2013/14. The rankings covered 65 scheduled commercial banks. Lenders whose financial statements were unavailable or those that have not completed four years of operations in India as on March 31, 2014, did not qualify for the study. To determine the rankings based on the provision coverage ratio parameter, banks with zero non-performing assets (NPAs) were assigned the highest rank in that category ('Provision coverage ratio'). The three broad ranking parameters were divided into 28 sub-parameters, compared to 29 last year. One parameter, operating profit to employee ratio, was dropped because of non-availability of data for foreign banks. The three broad parameters are:

GROWTH

There were five sub-parameters in this category. These were (a) growth over 2012/13 in deposits, alongside three-year compound annual growth rate (CAGR); (b) growth over 2012/13 in loans and advances, alongside three-year CAGR; (c) growth over 2012/13 in fee income (commissions, exchange, brokerage plus miscellaneous income), alongside three-year CAGR; (d) growth over 2012/13 in operating profit, alongside three-year CAGR; and (e) absolute rise in market share of deposits and of current and savings account (CASA).

SIZE

There were three sub-parameters: the size of total deposits; the size of operating profit; and the size of balance sheet for 2013/14.

STRENGTH

There were four overarching sub-parameters, each with further sub-divisions:

Quality of assets: Total NPA growth ratio: additions to NPAs during the year as a percentage of average net advances; Provision coverage: provisions for NPAs as a percentage of gross NPA closing balance; net NPAs as a ratio of net advances: gross NPAs net of provisions ex-

pressed as a percentage of net advances; restructured assets as a percentage of total average loans and advances; outstanding restructured assets as on March 31 as a percentage of outstanding loans and advances.

Productivity and efficiency: The cost to income ratio: operating expenditure as a percentage of operating income; the cost to average asset ratio: operating expenditure as a percentage of average assets; the absolute increase in return on assets: basis points increase in return on assets (net profit over total assets) from 2012/13 to 2013/14; the percentage increase in the ratio of operating profit to total income from 2012/13 to 2013/14.

Quality of earnings: Return on assets: the ratio of net profit to total assets for 2013/14; fee income as a percentage of total income; the return on capital employed: the reported net profit divided by average net worth; net interest income as a percentage of average working funds (average total assets minus average total other liabilities).

Capital adequacy: Capital adequacy ratio: capital-to-risk weighted assets ratio for 2013/14; Tier-I capital: total of equity capital and disclosed reserves.

KPMG in India

THE PROCESS

The banks were grouped into four sets. For this grouping, the information on the number of branches based on the RBI's *Profile of Banks, 2012/2013* was considered.

Set A: Thirty banks with balance sheet size greater than or equal to ₹1,00,000 crore.

Set B: Twenty banks with more than 10 branches as of March 31, 2013, and balance sheet size less than ₹1,00,000 crore.

Set C1: Seven banks with 10 or less branches as of March 31, 2013, and balance sheet size more than or equal to ₹10,000 crore.

Set C2: Eight banks with less than 10 branches as of March 31, 2013, and balance sheet size less than ₹10,000 crore.

To compute a bank's total score, it was assigned a score for each of the 28 sub-parameters, based on its ranks on the parameters. The score under each parameter was then multiplied by the parameter's weightage. The results are aggregated to arrive at the total score. ♦

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Term Loans

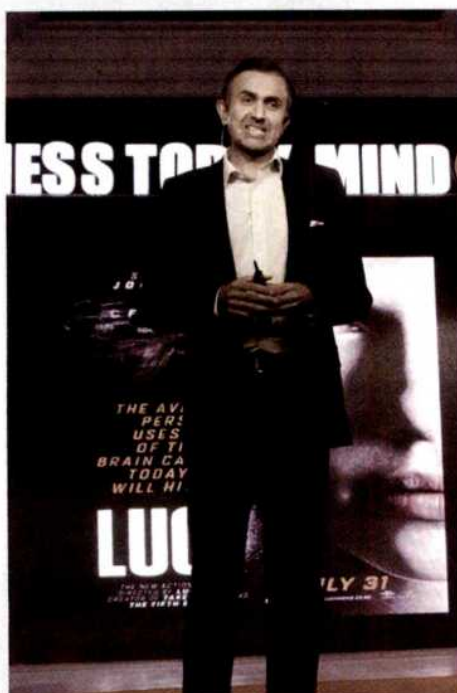
Working Capital Finance

Low Rate of Interest

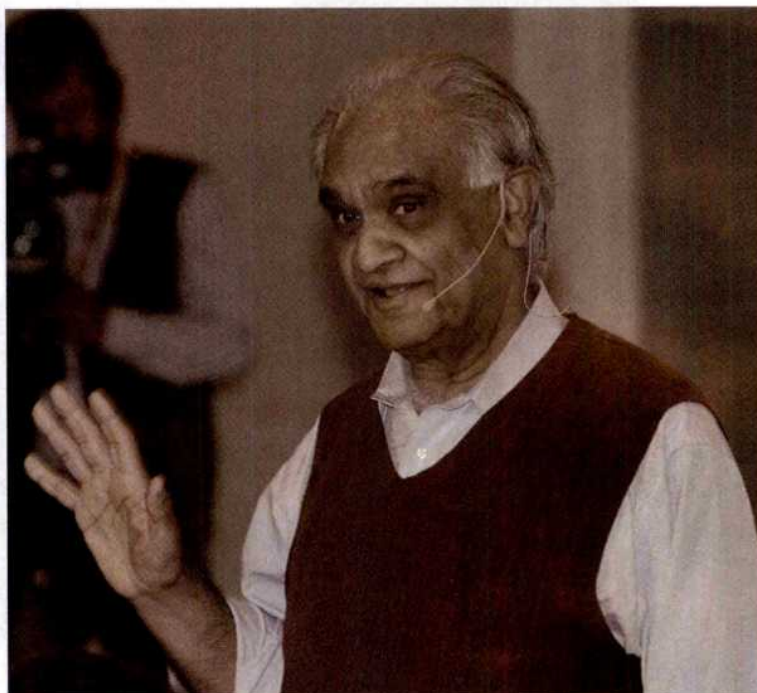
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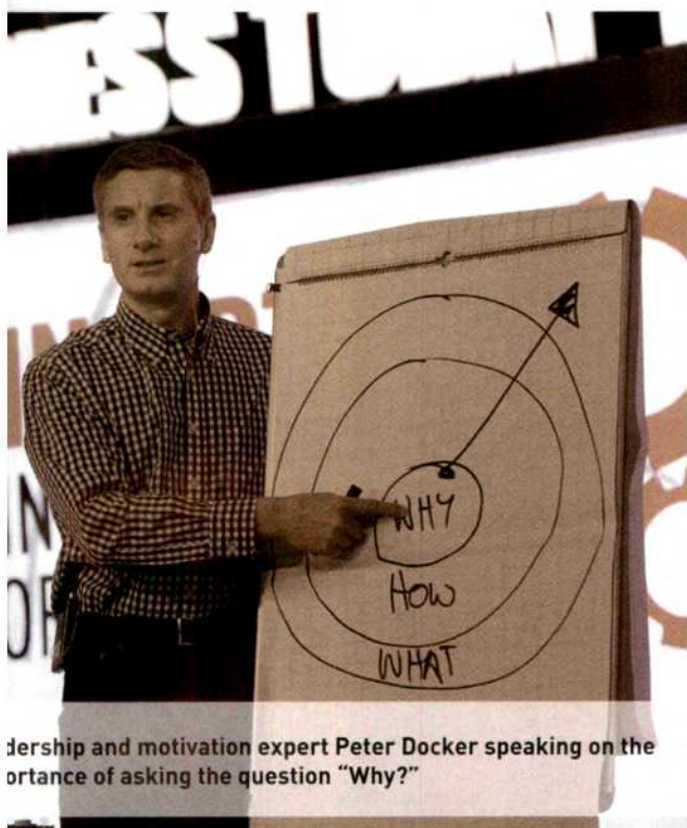
Duke University Professor P. Murali Doraiswamy speaking on how you can make your brain work better for you



Ram Charan providing insights into how to convert cues into business plans, to be a more effective leader



The Champions: Winners of the Business Today Best CEOs Awards with celebrated management guru Ram Charan (10th from left), Aroon Purie, Chairman and Editor-in-Chief of the India Today Group (11th from left) and Manpreet Singh Chadha, Vice Chairman of The Wave Group (extreme right).



Leadership and motivation expert Peter Docker speaking on the importance of asking the question "Why?"



Mt. Everest Conqueror Jamling Tenzing Norgay recounting his amazing experience of scaling the world's highest peak

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SHASHWAT SHARMA/ PARTNER/ KPMG IN INDIA

REGULATING 'TOO BIG TO FAIL'

Growth in the real sector of an economy typically cannot happen in isolation from the financial sector. Likewise, the financial sector cannot grow in isolation from the real sector, as there is a high correlation and interdependence between the two. In fact, the global economic and financial crisis of 2008 exemplifies this correlation and interlinkages, with its genesis lying in the housing and banking sectors, which ultimately engulfed the real sector as well. It also brought to the fore the lacunae in the regulatory framework and disproved the myth of 'too big to fail', gearing the regulators into action.

Successively, measures have been undertaken both to define these 'too big to fail' or global systemically important banks (G-SIBs) and to introduce the required regulatory changes to minimise the risk arising from these banks in case of an economic downturn. The Bank for International Settlements has listed five parameters to identify G-SIBs, which has been accepted by several countries. After the identification of these banks, various measures have been announced for limiting risks from them, such as:

- Higher capital surcharge levied in proportion to the risk posed by a bank
- Greater disclosures
- Enhanced supervision
- Country-specific reforms
- Separation of core and non-core banking activities
- Addressing risk from interconnectedness

- Planning recoveries, among others

While the US Federal Reserve, the European Central Bank and The People's Bank of China have increased capital buffers, they have also announced additional measures. The Fed stipulated SIBs to hold increased equity capital in proportion to short-term funds held by them; EU and China mandated higher financial disclosures.

In its quest to minimise risks from SIBs, the Financial Stability Board (FSB) has announced new 'bail-in' rules that require total loss absorbing capacity of at least 16 to 20 per cent of risk weighted assets. This implies conversion of debt into shares of creditors' money in case of bank failure to avoid bailing out banks from government coffers.

Regulatory measures in these countries/regions are important as they account for the bulk of 30 G-SIBs identified by the FSB. But, this raises questions such as how relevant is the concept of SIB to the Indian banking system? And, how big are the big Indian banks to raise risks on failure?

While it can be debated that the Indian banking sector is well regulated, fairly capitalised, relatively less complex and has smaller banks compared to its peers, the concept of SIBs may not gain much precedence. But this may not be entirely true. First, the exposure (defined by its loans and advances) of Indian banks as a percentage of the country's GDP has been found to be quite significant, when compared to their US and Chinese counterparts, exposing the economy to significant risks if adequate mitigation measures are not undertaken. Further, these banks dominate the banking sector on account of



RAJ VERMA

their large size (an important indicator of an SIB), which is bound to grow in the event of a possible merger or consolidation, especially in case of the State Bank of India and its subsidiaries.

With only three large banks, the percentage of loans and advances in India's GDP is more than 30 per cent. This is bound to rise on inclusion of more banks. Thus, the concept of SIBs gains precedence in India. However, as the business model of Indian banks varies from its overseas counterparts, the banking regulator in India, the Reserve Bank of India (RBI), has adopted the global definition of an SIB with a few modifications to better suit the domestic environment.

The RBI has set a two per cent criteria (individual bank assets as percentage of GDP) to commence Domestic SIB (DSIB) identification, and will also take into consideration other operations such as derivatives trading and specialised services, relevant in case of foreign banks. Based on its assessment, the central bank is expected to declare the first set of five to six SIBs by August 2015, which will then be required to maintain higher capital buffers and exposed to stricter supervision, similar to international practice. Last year, the RBI also made it compulsory for all banks to undertake stress tests for identification of possible risks and their ability to withstand shocks to safeguard the interest of all stakeholders: households, industry, and the government.

Further, smooth operation of these bigger banks is important as they are key lenders in the economy – a fact due to which they have attained this big size. Continued availability of funds to various sectors and entities is

particularly important for India at this juncture as the government is expending great efforts in placing the economy back on the high growth path and luring investors to the country.

However, from the bank's perspective, these measures can imply reduced autonomy on one hand and some sacrifice on growth due to risk calibration. In case the RBI adopts the bail-in strategy, it will likely entail a change in the funding pattern of banks and may bring in additional cost in case long-term debt instruments are issued. In addition, it may call for additional manpower and IT systems to facilitate information availability.

Similar to banks, the concept of systemically important is also applicable to other financial institutions such as the non-bank finance companies (NBFCs). Though the RBI has classified non-deposit taking NBFCs with an asset size of more than ₹5 billion as systemically important, it is worth noting that most NBFCs are of small size when compared to banks and may not truly be in a position to trigger an economic downturn. However, as a pre-emptive measure, the RBI has increased the core capital requirement for these NBFCs from 7.5 per cent to 10 per cent.

Thus, it is evident that minimising the risk emanating from SIBs has become a key area of concern for regulators. In India, too, though the definition has been adopted with some variance, adequate safeguards are being placed to ensure smooth operation of the financial system and the economy at large, as any imbalance or disruption in one is bound to hamper the other. ♦

Views expressed are personal



GROUP-I LARGE BANKS Balance sheet size more than or equal to ₹1,00,000 crore

RANKS			GROWTH (%)										SIZE (₹ CR)		
2013/14	BANK	Deposits		Loans & Advances		Fee Income		Operating Profit		Absolute Increase in Mkt. Share (basis points)		Deposits	Operating Profit	Balance Sheet	
2012/13		1-year Growth	3-year Growth	1-year Growth	3-year Growth	1-year Growth	3-year Growth	1-year Growth	3-year Growth	Deposits	CASA				
1	1	HDFC Bank	24.00 4	20.76 2	26.40 2	23.72 2	12.71 11	22.69 3	25.66 4	22.95 3	32.07 2	26.73 2	3,67,337.48 6	14,360.08 3	4,91,599.50 7
2	3	ICICI Bank	13.43 17	13.73 16	16.69 11	16.11 14	13.76 9	5.06 22	25.72 3	22.41 4	-4.73 19	18.90 4	3,31,913.66 7	16,594.57 2	5,94,641.58 3
3	2	Axis Bank	11.22 21	14.08 15	16.81 10	17.34 10	5.07 18	14.54 7	23.14 6	21.32 6	-10.67 25	3.71 8	2,80,944.56 9	11,456.08 4	3,83,244.89 8
4	4	Bank of Baroda	20.05 6	23.04 1	20.97 4	20.19 4	21.43 6	13.13 9	3.24 17	9.99 14	29.28 3	44.31 1	5,68,894.39 2	9,291.02 6	6,59,504.53 2
5	N/A	YES Bank	10.81 22	17.33 7	18.37 5	17.42 9	31.03 4	31.15 1	25.51 5	26.82 2	-3.15 18	7.78 6	74,192.02 28	2,687.97 24	1,09,015.79 29
6	7	Citibank	17.66 8	11.39 23	8.62 22	11.66 26	4.96 19	2.27 25	30.94 2	19.59 7	2.24 11	-6.40 21	78,313.02 27	5,604.59 10	1,44,980.62 20
7	20	UCO Bank	15.05 13	11.16 24	16.60 12	14.72 16	21.88 5	5.74 21	47.16 1	22.39 5	19.80 4	-12.57 27	1,99,533.55 14	4,940.40 13	2,39,124.75 14
8	11	Bank of India	24.91 3	16.86 8	28.12 1	20.27 3	4.14 22	15.21 5	12.93 9	16.09 8	45.47 1	-0.43 13	4,76,974.05 3	8,422.90 7	5,73,190.20 4
9	10	State Bank of India	15.94 11	14.29 14	15.70 13	16.93 11	11.44 12	3.79 24	3.31 15	8.22 18	16.05 5	-17.43 29	13,94,408.50 1	32,109.24 1	17,92,234.60 1
10	9	Syndicate Bank	14.56 15	16.13 10	17.85 7	17.66 7	10.31 13	10.95 12	3.29 16	9.02 16	-0.53 15	-7.75 22	2,12,343.30 13	3,562.95 17	2,51,861.47 13
11	16	Punjab National Bank	15.28 12	12.99 19	13.11 16	12.99 24	10.00 14	5.89 20	4.37 13	7.93 19	2.21 12	4.64 7	4,51,396.75 4	11,384.45 5	5,50,419.92 5
12	12	Standard Chartered	16.03 10	7.27 30	10.44 18	11.62 27	18.19 7	1.68 26	8.33 11	11.18 11	0.90 13	-4.77 19	72,111.53 29	5,326.90 11	1,31,000.96 25
13	23	Canara Bank	18.23 7	12.76 20	24.32 3	12.53 25	36.46 2	10.19 13	15.39 8	3.72 26	14.35 7	25.28 3	4,20,722.82 5	6,796.19 8	4,91,921.85 6
14	15	Oriental Bank of Commerce	10.00 24	11.64 22	7.85 23	13.19 23	13.42 10	25.95 2	12.59 10	8.59 17	-9.95 24	-4.64 18	1,93,488.96 15	4,155.49 14	2,20,302.50 17
15	6	IDBI Bank	3.81 29	9.32 29	0.70 29	7.96 29	-19.58 30	5.00 23	4.09 14	10.97 13	-29.40 30	-37.99 30	2,35,773.63 11	5,681.39 9	3,28,996.63 10
16	17	HSBC	26.13 2	9.85 27	12.63 17	13.65 22	-11.80 28	-15.52 30	-16.95 30	-2.32 28	7.59 9	-11.60 25	71,727.51 30	2,733.98 22	1,31,880.50 24
17	28	Allahabad Bank	6.77 25	13.11 18	6.58 24	13.81 21	55.96 1	14.58 6	18.76 7	9.59 15	-16.91 28	-5.95 20	1,90,842.81 17	4,020.43 15	2,20,434.28 16

YES Bank saw its balance sheet size cross the ₹1,00,000-crore mark in the past year and have thus been shifted from 'mid-sized' to 'large'. Three-year growth is Compound Annual Growth in Account Savings Account; AWF: Average Working Fund; ROCE: Return on Capital Employed; The 2013 rankings were carried in the December 8, 2013 issue; *RA: Restructured assets/Total av

The 2014 Rankings

QUALITY OF ASSETS					STRENGTH				QUALITY OF EARNINGS				CAPITAL ADEQUACY		TOTAL SCORE ▼
Total NPA Growth Ratio (%)	NPA Coverage (%)	Net NPA/Net Advances (%)	RA/ Avg. Loans* (%)	ORA Outstanding Loans and Advances	Cost/ Income Ratio	Cost/ Avg. Asset (%)	Absolute Increase in Return on Assets	Increase in Operating Profit/Total Income (%)	Return on Assets (%)	Fee Income/ Total Income (%)	ROCE (%)	Net Interest Income/AWF (%)	Capital Adequacy Ratio (%)	TIER I (%)	
1.70 6	72.57 4	0.27 2	0.01 3	0.16 3	0.46 15	2.70 30	0.0004 5	7.38 6	1.72 2	13.05 3	21.28 2	4.53 2	16.07 3	11.77 5	2,517.50
1.44 5	68.61 5	0.97 6	2.03 10	3.97 7	0.38 5	1.82 22	0.0010 4	11.48 3	1.65 3	11.73 4	14.02 7	3.10 8	17.70 1	12.78 3	2,388.63
1.19 3	66.31 6	0.45 4	2.12 12	3.60 6	0.41 7	2.18 27	0.0010 3	9.18 4	1.62 4	14.65 2	17.43 3	3.42 5	16.07 3	12.62 4	2,328.25
1.88 7	49.18 10	1.52 8	1.86 9	6.68 14	0.43 9	1.18 4	-0.0013 9	-7.64 16	0.69 9	6.08 16	13.36 8	2.04 26	12.28 11	9.28 11	2,210.63
0.78 1	85.10 2	0.05 1	0.00 2	0.22 4	0.39 6	1.68 18	0.0017 2	2.43 8	1.48 5	11.60 5	25.02 1	2.77 12	14.40 5	9.80 8	2,176.75
1.20 4	52.75 7	1.24 7	0.04 4	0.08 1	0.34 2	2.09 25	-0.0012 8	17.13 2	2.00 1	8.62 7	16.14 4	4.03 3	14.38 6	13.38 2	2,043.63
2.85 14	42.61 15	2.38 18	4.38 26	7.79 17	0.33 1	1.11 2	0.0032 1	33.26 1	0.63 11	4.31 29	14.45 6	2.86 10	12.68 7	8.71 14	1,999.13
2.67 11	30.03 27	2.00 12	1.85 8	4.62 8	0.44 11	1.31 5	-0.0013 10	-4.54 13	0.48 19	6.49 13	10.14 10	2.17 24	9.97 27	7.24 29	1,902.25
3.65 22	49.52 9	2.57 20	2.67 15	4.87 9	0.53 25	2.13 26	-0.0029 20	-9.51 18	0.61 13	9.12 6	10.03 12	3.11 7	12.44 10	9.72 9	1,784.00
2.30 8	38.26 17	1.56 10	1.82 7	6.40 12	0.48 19	1.41 10	-0.0025 18	-5.26 15	0.68 10	5.32 22	15.29 5	2.45 17	11.41 16	8.68 15	1,729.13
3.29 20	46.28 11	2.84 23	3.50 23	10.49 27	0.45 12	1.81 21	-0.0038 24	0.68 9	0.61 14	7.22 11	9.75 13	3.23 6	11.52 15	8.87 12	1,698.25
4.61 26	94.70 1	0.45 5	0.16 5	0.80 5	0.38 4	2.56 29	-0.0126 29	-1.86 12	1.21 6	19.03 1	8.19 20	5.32 1	12.48 9	10.52 6	1,660.25
3.11 18	20.62 30	1.98 11	6.18 30	8.84 22	0.47 18	1.34 6	-0.0020 13	-1.20 11	0.50 17	6.18 14	8.95 17	2.04 27	10.63 24	7.68 22	1,639.25
3.00 17	30.47 26	2.81 22	4.05 25	12.21 29	0.41 8	1.39 9	-0.0014 11	3.98 7	0.52 16	7.26 10	8.70 18	2.49 15	11.01 18	8.86 13	1,564.75
2.90 16	49.93 8	2.48 19	2.08 11	7.82 18	0.37 3	1.02 1	-0.0024 17	-0.46 10	0.34 22	7.05 12	5.00 27	1.90 28	11.68 13	7.79 21	1,455.13
0.81 2	83.66 3	0.27 3	0.00 1	0.08 2	0.49 22	2.22 28	-0.0069 27	-19.07 28	1.13 7	8.44 8	9.48 15	3.83 4	17.36 2	15.89 1	1,441.63
4.50 25	29.08 29	4.15 29	3.79 24	9.87 25	0.46 17	1.63 15	-0.0005 7	7.41 5	0.53 15	8.11 9	10.12 11	2.56 14	9.96 28	7.51 23	1,416.88

; Total parameters are now 28 against 29 last year. Values in each parameter are rounded off; NA: Not Applicable; NPA: Non-performing Assets; CASA: Current and advances; ORA: Outstanding restructured assets; For explanation of parameters and how total score was arrived at, see *How the Banks Were Ranked*, page 78





GROUP-I LARGE BANKS Balance sheet size more than or equal to ₹1,00,000 crore

RANKS	2013/14 2012/13	BANK	GROWTH (%)										SIZE (₹ CR)		
			Deposits		Loans & Advances		Fee Income		Operating Profit		Absolute Increase in Mkt. Share (basis points)		Deposits	Operating Profit	Balance Sheet
			1-year Growth	3-year Growth	1-year Growth	3-year Growth	1-year Growth	3-year Growth	1-year Growth	3-year Growth	Deposits	CASA			
18	14	Union Bank of India	12.86 19	13.71 17	10.09 19	14.91 15	4.82 20	11.53 11	-6.53 28	6.62 21	-6.04 22	-12.86 28	2,97,675.64 8	5,218.11 12	3,53,780.90 9
19	8	Corporation Bank	16.50 9	18.32 6	15.47 15	16.43 12	2.80 25	8.73 16	0.08 22	5.97 22	3.31 10	-3.50 16	1,93,393.01 16	3,039.40 19	2,22,048.47 15
20	21	Indian Bank	14.29 16	15.32 13	15.68 14	17.54 8	-15.39 29	-1.92 28	-5.25 26	-4.13 29	-0.85 16	0.76 11	1,62,274.82 18	2,900.60 20	1,87,326.70 18
21	22	Indian Overseas Bank	12.78 20	16.22 9	9.68 20	16.29 13	4.78 21	14.26 8	4.72 12	11.80 10	-4.81 21	-7.96 23	2,27,976.09 12	3,997.24 16	2,74,904.84 12
22	13	State Bank of Hyderabad	5.46 28	10.48 25	6.45 25	13.91 19	-1.40 27	-2.98 29	-3.49 25	5.08 24	-12.47 26	0.82 10	1,19,509.70 21	2,690.99 23	1,41,489.05 21
23	19	Dena Bank	13.19 18	19.67 4	17.90 6	20.05 5	35.97 3	8.82 15	2.02 19	13.18 9	-1.85 17	-1.78 15	1,10,027.69 24	1,774.03 27	1,24,863.49 27
24	27	Vijaya Bank	28.12 1	19.28 5	16.83 9	18.71 6	4.10 23	6.19 19	-1.63 24	1.78 27	15.21 6	0.38 12	1,24,296.16 20	1,103.73 30	1,37,358.61 22
25	5	Bank of Maharashtra	23.81 5	20.45 3	17.82 8	23.79 1	1.71 26	18.03 4	-6.62 29	32.89 1	10.01 8	-4.10 17	1,16,803.09 22	2,006.37 26	1,36,320.05 23
26	18	Andhra Bank	14.58 14	15.46 11	9.42 21	14.65 18	9.67 15	8.12 18	-0.25 23	4.58 25	-0.33 14	-1.28 14	1,41,845.12 19	2,760.24 21	1,67,340.93 19
27	24	State Bank of Travancore	5.57 27	15.38 12	2.85 28	14.66 17	17.05 8	9.50 14	1.38 20	5.21 23	-9.20 23	1.03 9	89,336.68 26	1,369.69 29	1,05,285.42 30
28	25	Central Bank of India	6.21 26	10.21 26	3.13 26	10.98 28	3.72 24	12.26 10	2.06 18	7.71 20	-22.88 29	-8.43 24	2,40,068.99 10	3,238.03 18	2,89,496.22 11
29	29	State Bank of Patiala	1.13 30	9.63 28	2.90 27	13.87 20	7.48 16	0.36 27	-6.06 27	-6.28 30	-14.28 27	11.68 5	89,673.16 25	1,448.31 28	1,14,120.73 28
30	26	United Bank of India	10.79 23	12.73 21	-4.56 30	7.12 30	7.00 17	8.21 17	0.58 21	11.01 12	-4.76 20	-12.40 26	1,11,509.71 23	2,061.74 25	1,25,104.95 26

GROUP-II MID-SIZED BANKS Balance sheet size less than ₹1,00,000 crore,

1	2	IndusInd Bank	11.80 10	20.75 7	24.33 3	28.18 2	26.69 3	32.92 2	41.05 3	33.89 3	-1.91 13	7.01 2	60,502.29 5	2,595.96 1	87,025.93 4
2	3	Kotak Bank	15.76 6	26.39 3	9.41 14	21.82 7	8.80 10	14.80 8	19.50 5	24.83 5	0.58 6	7.73 1	59,072.33 7	2,577.15 2	87,585.34 3
3	4	Jammu & Kashmir Bank	7.97 15	15.78 12	18.33 5	20.98 8	-3.65 16	8.91 10	4.92 10	18.23 10	-5.17 17	-4.01 18	69,335.86 3	1,899.76 3	78,619.73 5

Three-year growth is Compound Annual Growth Rate (CAGR); Values in each parameter are rounded off; NA: Not Applicable; NPA: Non-performing Assets; CASA: Current Account Savings Account; Total average loans and advances; ORA: Outstanding restructured assets; For explanation of parameters and how total score was arrived at, see *How the Banks Were Ranked*, page 78

The 2014 Rankings

QUALITY OF ASSETS					STRENGTH				QUALITY OF EARNINGS				CAPITAL ADEQUACY		TOTAL SCORE ▼
Total NPA Growth Ratio (%)	NPA Coverage (%)	Net NPA/Net Advances (%)	RA/Avg. Loans* (%)	ORA Outstanding Loans and Advances	Cost/Income Ratio	Cost/Avg. Asset %	Absolute Increase in Return on Assets	Increase in Operating Profit/Total Income (%)	Return on Assets (%)	Fee Income/Total Income (%)	ROCE (%)	Net Interest Income/AWF %	Capital Adequacy Ratio (%)	TIER I (%)	
2.51 10	44.16 12	2.33 16	2.35 13	6.74 15	0.51 24	1.65 17	-0.0021 14	-19.59 29	0.48 18	4.94 25	9.48 14	2.42 19	10.80 19	7.50 24	1,347.50
2.78 13	32.75 24	2.32 15	2.72 16	8.09 21	0.44 10	1.15 3	-0.0049 25	-13.52 26	0.25 27	6.11 15	5.72 24	1.87 29	11.64 14	8.14 17	1,346.63
2.49 9	32.59 25	2.26 14	3.42 22	7.91 19	0.49 23	1.62 14	-0.0035 22	-13.46 25	0.62 12	4.98 24	8.97 16	2.58 13	12.64 8	10.24 7	1,324.38
4.11 23	33.19 23	3.22 27	2.66 14	8.05 20	0.48 21	1.44 12	-0.0001 6	-4.56 14	0.22 28	6.07 17	4.06 28	2.20 23	10.78 22	7.47 25	1,322.75
5.20 27	44.01 13	3.12 25	3.33 19	6.56 13	0.46 16	1.63 16	-0.0020 12	-10.35 19	0.72 8	4.84 26	12.74 9	3.05 9	12.00 12	9.32 10	1,248.50
3.38 21	29.54 28	2.35 17	3.40 21	9.29 23	0.48 20	1.38 8	-0.0027 19	-10.53 20	0.44 20	5.09 23	8.55 19	2.14 25	11.14 17	7.43 27	1,233.25
2.87 15	35.75 20	1.55 9	1.76 6	4.91 10	0.60 29	1.36 7	-0.0022 16	-16.77 27	0.30 23	3.95 30	7.27 22	1.71 30	10.56 25	8.12 18	1,175.25
3.15 19	35.31 21	2.03 13	2.92 17	6.80 16	0.54 26	1.89 24	-0.0037 23	-23.52 30	0.28 25	5.56 19	5.61 25	2.85 11	10.79 20	7.44 26	1,174.63
2.75 12	42.94 14	3.11 24	4.79 28	10.02 26	0.46 14	1.47 13	-0.0062 26	-10.93 22	0.26 26	5.33 21	5.07 26	2.43 18	10.78 22	7.96 19	1,142.25
7.21 29	36.31 18	2.78 21	3.09 18	5.85 11	0.58 27	1.80 19	-0.0032 21	-10.82 21	0.29 24	5.51 20	6.53 23	2.40 21	10.79 20	8.46 16	961.38
4.33 24	38.73 16	3.75 28	5.28 29	15.43 30	0.62 30	1.86 23	-0.0081 28	-8.87 17	-0.44 29	4.81 27	-8.12 29	2.42 20	9.87 29	7.37 28	808.88
5.43 28	36.02 19	3.17 26	4.54 27	10.68 28	0.58 28	1.81 20	-0.0022 15	-12.07 23	0.39 21	5.94 18	7.80 21	2.46 16	10.38 26	7.88 20	774.63
11.89 30	33.71 22	7.09 30	3.38 20	9.64 24	0.45 13	1.42 11	-0.0131 30	-12.10 24	-0.97 30	4.45 28	-21.73 30	2.20 22	9.81 30	6.54 30	699.00

and more than 10 branches

1.26 8	70.35 4	0.33 5	0.24 6	0.42 4	0.457 3	2.73 17	0.0017 3	16.06 3	1.62 3	12.02 3	16.91 3	3.72 4	13.83 8	12.71 8	1,604.91
1.84 10	45.86 7	1.08 11	0.18 4	0.24 3	0.497 7	2.97 19	0.0009 4	8.17 5	1.72 2	9.09 6	13.82 7	4.5 3	18.83 1	17.77 1	1,494.55
0.96 5	83.44 3	0.22 3	1.55 12	3.40 11	0.382 1	1.56 3	0.0003 5	-2.95 7	1.50 4	4.10 18	22.34 1	3.65 5	12.69 12	11.22 12	1,370.22

Average Working Fund; ROCE: Return on Capital Employed; The 2013 rankings were carried in the December 8, 2013 issue; *RA: Restructured assets/



GROUP-II MID-SIZED BANKS

Balance sheet size less than ₹1,00,000 crore, and more than 10 branches

RANKS		GROWTH (%)										SIZE (₹ CR)			
2013/14	BANK	Deposits		Loans & Advances		Fee Income		Operating Profit		Absolute Increase in Mkt. Share (basis points)		Deposits	Operating Profit	Balance Sheet	
		1-year Growth	3-year Growth	1-year Growth	3-year Growth	1-year Growth	3-year Growth	1-year Growth	3-year Growth	Deposits	CASA				
2012/13															
4	5	Deutsche Bank	25.58 2	21.26 5	29.68 2	26.62 3	0.27 15	3.67 15	-21.01 19	4.10 15	2.64 2	3.73 4	26,113.50 12	1,439.08 6	57,695.05 9
5	10	ING Vysya Bank	-0.28 19	10.93 18	12.77 8	14.93 14	10.93 9	8.72 11	13.58 7	21.06 8	-7.34 18	-4.62 19	41,216.77 10	1,127.54 8	60,413.23 8
6	6	City Union Bank	8.43 12	19.46 8	5.58 16	20.26 10	3.10 14	20.55 5	10.99 8	17.18 11	-1.52 12	0.39 13	22,016.89 13	580.97 14	24,993.83 14
7	12	Development Credit Bank	23.45 3	22.55 4	23.60 4	23.88 6	13.68 7	13.10 9	49.02 1	29.75 4	0.85 4	0.14 15	10,325.16 20	187.96 17	12,923.14 20
8	17	RBS (ABN)	-8.81 20	-5.89 20	-11.16 20	1.81 19	32.73 2	-5.53 19	42.75 2	-7.57 19	-3.56 14	-8.13 20	11,625.65 18	681.67 13	20,366.29 16
9	11	Federal Bank	3.67 17	11.57 16	-1.50 18	10.78 17	6.25 11	-1.11 17	1.78 12	1.23 16	-7.55 19	4.16 3	59,731.28 6	1,480.39 5	74,594.15 6
10	9	RBL Bank	39.06 1	78.42 1	54.25 1	72.83 1	109.57 1	114.12 1	14.04 6	110.14 1	2.38 3	1.92 8	11,598.60 19	178.69 18	18,198.13 17
11	8	Karur Vysya Bank	13.21 7	20.96 6	15.31 6	24.03 5	23.85 4	26.04 3	-1.30 14	11.73 13	-0.73 9	2.41 6	43,757.68 9	837.80 10	51,543.15 11
12	7	South Indian Bank	7.29 16	16.91 10	13.87 7	20.93 9	5.43 12	23.60 4	4.21 11	18.96 9	-3.91 15	2.22 7	47,491.09 8	884.34 9	54,985.97 10
13	14	State Bank of Bikaner & Jaipur	2.44 18	11.11 17	11.54 10	15.91 13	14.68 6	7.08 12	-1.06 13	14.12 12	-10.50 20	0.86 11	73,874.73 2	1,694.66 4	90,876.97 2
14	13	Karnataka Bank	12.55 9	14.08 13	12.45 9	17.78 11	15.96 5	18.31 6	8.14 9	24.59 6	-0.95 11	0.93 10	40,582.83 11	687.05 12	47,028.80 12
15	16	State Bank of Mysore	8.06 14	12.51 14	10.12 13	13.29 15	-5.47 17	4.12 14	-12.52 16	-0.27 17	-4.52 16	1.55 9	61,560.32 4	1,164.44 7	73,976.35 7
16	15	DBS Bank	12.81 8	33.35 2	9.36 15	26.29 4	-36.33 20	4.36 13	-19.18 18	21.57 7	-0.36 7	2.99 5	17,471.89 15	536.60 15	45,462.61 13
17	19	Lakshmi Vilas Bank	18.91 5	18.54 9	10.14 12	16.77 12	13.56 8	16.03 7	23.03 4	4.11 14	0.76 5	0.40 12	18,572.88 14	309.00 16	20,653.06 15
18	18	Punjab & Sind Bank	19.94 4	12.37 15	11.29 11	10.31 18	-10.39 18	-5.45 18	-14.73 17	-7.56 18	4.28 1	0.30 14	84,730.16 1	800.54 11	94,509.15 1
19	20	Catholic Syrian	10.79 11	16.15 11	-1.63 19	11.87 16	4.21 13	0.93 16	-6.51 15	41.55 2	-0.58 8	-0.22 16	13,673.86 16	95.34 19	15,315.55 18
20	21	Dhanalakshmi Bank	8.31 13	-1.07 19	2.04 17	-4.34 20	-27.89 19	-23.55 20	-88.21 20	-55.21 20	-0.86 10	-0.54 17	12,133.21 17	6.06 20	14,687.59 19

Three-year growth is Compound Annual Growth Rate (CAGR); Values in each parameter are rounded off; NA: Not Applicable; NPA: Non-performing Assets

The 2014 Rankings

STRENGTH															
QUALITY OF ASSETS					PRODUCTIVITY AND EFFICIENCY				QUALITY OF EARNINGS				CAPITAL ADEQUACY		TOTAL SCORE ▼
Total PA Growth Ratio (%)	NPA Coverage (%)	Net NPA/Net Advances (%)	RA/Avg. Loans* (%)	ORA Outstanding Loans and Advances	Cost/Income Ratio	Cost/Avg. Asset %	Absolute Increase in Return on Assets	Increase in Operating Profit/Total Income (%)	Return on Assets (%)	Fee Income/Total Income (%)	ROCE (%)	Net Interest Income/AWF %	Capital Adequacy Ratio (%)	TIER I (%)	
0.15 2	84.80 2	0.09 2	0.00 1	0.00 1	0.469 4	2.58 13	-0.0129 19	-28.66 18	1.26 6	14.27 2	8.62 13	5.06 1	14.84 6	14.23 6	1,296.70
0.99 6	37.71 12	0.46 7	1.16 9	1.42 8	0.570 14	2.59 14	-0.0003 7	4.53 6	1.09 9	9.63 5	11.25 11	3.18 8	16.76 2	14.63 2	1,195.25
2.91 13	32.68 15	1.23 12	1.34 10	2.19 10	0.452 2	2.00 8	-0.0001 6	-4.01 8	1.39 5	8.62 8	18.94 2	3.25 7	15.01 5	14.43 4	1,189.36
1.32 9	45.11 8	0.91 10	1.08 7	1.40 7	0.629 17	2.64 15	0.0027 2	21.52 2	1.17 7	8.76 7	14.07 6	3.17 9	13.71 10	12.86 7	1,175.39
0.13 1	105.06 1	-0.05 1	0.00 2	0.45 5	0.578 15	3.99 20	0.0090 1	45.05 1	1.74 1	18.54 1	12.14 10	4.92 2	15.31 3	11.94 9	1,170.80
1.19 7	66.32 5	0.74 8	1.52 11	7.69 17	0.493 6	1.98 7	-0.0006 9	-8.99 11	1.12 8	5.19 15	12.60 9	3.15 10	15.14 4	14.59 3	1,160.82
0.79 4	60.76 6	0.31 4	0.23 5	0.19 2	0.703 18	2.72 16	-0.0020 14	-28.87 19	0.51 14	11.54 4	5.12 17	2.26 17	14.64 7	14.33 5	1,118.80
0.47 3	41.01 10	0.41 6	2.78 19	4.31 13	0.547 11	2.06 9	-0.0034 17	-18.42 15	0.83 11	7.47 13	13.40 8	2.67 14	12.60 13	11.62 11	1,082.30
1.85 11	29.88 17	0.78 9	1.58 13	4.15 12	0.500 8	1.69 4	-0.0009 11	-7.68 10	0.92 10	4.88 16	15.93 4	2.74 12	12.42 14	10.79 13	1,081.96
3.49 15	35.20 14	2.76 15	1.87 15	7.85 18	0.542 10	2.27 11	-0.0004 8	-10.04 12	0.81 12	7.55 12	14.46 5	3.35 6	11.55 15	9.04 16	1,028.42
2.44 12	32.48 16	1.90 13	2.19 16	6.57 15	0.560 12	1.98 6	-0.0018 13	-4.13 9	0.66 13	7.73 11	10.53 12	2.45 16	13.20 11	10.73 14	979.93
4.44 16	42.17 9	3.29 16	2.32 18	8.22 19	0.534 9	1.89 5	-0.0025 16	-16.76 13	0.37 15	6.47 14	6.18 15	2.82 11	11.08 16	8.65 17	831.90
12.19 20	27.02 18	10.19 20	1.14 8	1.10 6	0.486 5	1.18 1	-0.0070 18	-22.85 17	0.00 19	7.97 10	0.06 19	2.21 18	13.81 9	11.77 10	824.39
5.44 18	9.74 20	3.44 18	2.22 17	6.86 16	0.561 13	2.06 10	-0.0023 15	9.38 4	0.29 17	8.29 9	5.77 16	2.61 15	10.90 19	7.87 18	769.17
2.98 14	24.23 19	3.35 17	4.37 20	11.22 20	0.609 16	1.43 2	-0.0010 12	-21.49 16	0.32 16	3.18 20	6.25 14	1.91 20	11.04 17	7.62 19	740.51
4.45 17	40.52 11	2.22 14	0.11 3	4.74 14	0.808 19	2.77 18	-0.0006 10	-18.38 14	0.18 18	3.74 19	3.52 18	2.68 13	11.00 18	9.07 15	597.25
6.21 19	37.40 13	3.80 19	1.63 14	2.02 9	0.983 20	2.44 12	-0.0173 20	-87.72 20	-1.72 20	4.28 17	-33.54 20	2.02 19	8.67 20	6.93 20	289.47

SMALL BANKS & VERY SMALL BANKS



GROUP-III SMALL BANKS

Balance sheet size more than or equal to ₹10,000 crore, and less than or equal to 10 branches

RANKS			GROWTH (%)										SIZE (₹ CR)		
			Deposits		Loans & Advances		Fee Income		Operating Profit		Absolute Increase in Mkt. Share (basis points)		Deposits	Operating Profit	Balance Sheet
			1-year Growth	3-year Growth	1-year Growth	3-year Growth	1-year Growth	3-year Growth	1-year Growth	3-year Growth	Deposits	CASA			
2013/14	2012/13	BANK													
1	1	JP Morgan Chase Bank	28.063	27.654	-17.206	8.524	12.525	8.845	23.423	19.634	0.01623	0.00323	13,278.081	1,420.791	28,492.613
2	2	Bank of America N.A.	9.706	10.686	11.703	13.273	44.293	21.213	50.802	17.395	-0.00446	-0.03027	8,093.424	1,213.722	26,929.974
3	6	Barclays Bank PLC	114.472	17.235	-4.404	-0.856	264.711	7.316	141.411	15.416	0.05942	0.00692	10,859.073	835.743	33,378.961
4	4	Bank of Tokyo-Mitsubishi UFJ	16.444	42.911	-14.725	3.465	15.174	46.942	10.585	31.702	0.00084	-0.01916	4,828.265	590.884	15,460.825
5	5	BNP Paribas	122.911	38.853	60.671	31.632	-15.276	-2.607	7.836	0.007	0.07101	0.01071	12,437.692	377.706	28,758.492
6	3	Scotia Bank	-46.047	-3.667	-39.827	-9.477	111.302	62.701	11.854	20.093	-0.04347	-0.00184	3,267.596	560.675	10,500.186
7	N/A	Mizuho Corporate Bank	11.245	42.442	29.582	41.661	-18.447	15.254	-2.217	42.371	-0.00075	-0.00555	1,939.387	374.337	10,262.987

GROUP-IV VERY SMALL BANKS

Balance sheet size less than ₹10,000 crore,

1	3		Shinhan	28.91 3	32.82 2	8.62 3	28.38 3	0.90 3	20.82 4	21.08 3	25.41 4	0.00239 3	-0.00001 4	1,856.79 1	106.72 2	3,132.31 2
2	8		Krung Thai Bank	15.40 6	22.18 4	-19.82 7	-0.93 6	-6.26 5	-17.72 8	31.22 2	24.56 5	0.00001 6	0.00044 3	211.75 6	8.79 8	271.33 8
3	6		Antwerp Diamond Bank N.V.	-7.74 8	10.23 8	-10.34 6	4.37 5	-15.12 6	26.56 2	6.23 5	30.57 3	-0.00021 8	-0.00022 5	73.36 8	45.02 4	944.06 6
4	5		Mashreq	3.36 7	27.23 3	225.62 1	62.78 2	41.35 2	21.09 3	34.15 1	23.78 6	-0.00016 7	-0.00037 6	123.45 7	25.95 7	321.57 7
5	4		Abu Dhabi Commercial Bank	133.68 1	42.82 1	115.46 2	83.83 1	66.19 1	39.00 1	13.89 4	67.41 1	0.00986 1	0.00210 2	1,645.92 2	34.54 5	2,299.63 3
6	7		Credit Agricole	74.57 2	15.68 6	8.46 4	-7.32 8	-1.68 4	-11.32 7	-15.76 6	-14.66 8	0.00420 2	-0.00119 7	1,040.89 3	174.07 1	6,525.94 1
7	2		State Bank of Mauritius	21.63 4	13.35 7	-29.20 8	-1.13 7	-52.50 8	10.29 5	-30.31 8	42.34 2	0.00048 5	-0.00128 8	728.04 5	49.55 3	1,425.83 4
8	9		Bank of Bahrain & Kuwait B.S.C	20.70 5	17.72 5	6.54 5	24.44 4	-26.49 7	-3.09 6	-27.20 7	15.77 7	0.00048 4	0.00215 1	839.85 4	31.98 6	1,212.72 5

Mizuho Corporate Bank saw its balance sheet size cross the ₹10,000-crore mark in the past year and have thus been shifted from 'very small' to 'small'. Values in each parameter are rounded. The 2013 rankings were carried in the December 8, 2013 issue; *RA: Restructured assets/Total average loans and advances; ORA: Outstanding restructured assets; For explanation of parameters see page 90.

The 2014 Rankings

STRENGTH															
QUALITY OF ASSETS					PRODUCTIVITY AND EFFICIENCY				QUALITY OF EARNINGS				CAPITAL ADEQUACY		TOTAL SCORE ▼
Total IPA Growth Ratio (%)	NPA Coverage (%)	Net NPA/Net Advances (%)	RA/Avg. Loans* (%)	ORA Outstanding Loans and Advances	Cost/Income Ratio	Cost/Avg. Asset %	Absolute Increase in Return on Assets	Increase in Operating Profit/Total Income (%)	Return on Assets (%)	Fee Income/Total Income (%)	ROCE (%)	Net Interest Income/AWF %	Capital Adequacy Ratio (%)	TIER I (%)	
0.00 1	100.00 3	0.00 1	0.00 1	0.00 1	0.14 1	0.83 1	0.0020 4	6.03 3	2.85 1	6.26 7	13.20 3	2.87 6	25.58 3	25.05 3	510.07
0.00 1	100.00 1	0.00 1	0.00 1	0.00 1	0.31 5	2.25 7	0.0052 3	15.77 2	2.61 3	7.92 5	14.45 2	4.61 2	16.70 6	16.37 6	444.32
2.18 6	80.87 5	1.10 5	0.09 5	0.24 5	0.38 6	1.57 5	0.0109 1	96.86 1	1.17 6	13.51 2	6.97 4	3.21 5	19.72 4	18.99 5	421.28
0.01 4	91.44 4	0.01 4	0.00 1	0.00 1	0.23 3	1.26 3	-0.0086 7	-6.63 5	1.18 5	10.35 3	5.20 7	3.92 3	39.15 1	31.61 2	413.57
0.00 1	100.00 1	0.00 1	0.00 1	0.00 1	0.52 7	1.71 6	-0.0031 6	-16.54 6	0.68 7	9.14 4	6.96 5	3.56 4	13.89 7	12.14 7	367.57
2.24 7	39.83 6	2.49 7	0.94 7	1.25 6	0.16 2	0.85 2	0.0073 2	2.81 4	2.79 2	24.86 1	16.05 1	2.40 7	19.59 5	19.17 4	363.64
0.46 5	28.16 7	1.51 6	0.39 6	2.01 7	0.26 4	1.47 4	-0.0031 5	-17.90 7	1.96 4	7.65 6	5.44 6	5.38 1	34.98 2	34.57 1	328.64

and less than 10 branches

0.00 1	100.00 1	0.00 1	0.00 1	0.61 5	0.26 2	1.36 3	0.0000 3	-10.25 5	1.78 4	4.01 5	7.54 4	4.29 4	46.24 2	45.16 2	622.81
0.00 1	100.00 1	0.00 1	0.00 1	0.00 1	0.298 3	1.47 4	0.0030 2	13.07 1	1.90 3	1.57 8	9.96 3	4.44 2	50.52 1	49.27 1	522.83
0.00 1	100.00 1	0.00 1	0.00 1	0.00 1	0.299 4	1.96 7	0.0142 1	4.16 2	2.82 2	21.40 2	10.94 2	4.70 1	37.89 4	27.62 7	512.08
0.00 1	100.00 1	0.00 1	0.00 1	0.00 1	0.37 6	5.47 8	-0.0029 4	-2.69 4	4.43 1	62.11 1	11.13 1	4.43 3	34.17 6	33.14 5	507.33
0.22 5	70.00 5	0.05 5	3.04 6	2.22 6	0.42 8	1.25 2	-0.0066 5	-12.33 6	0.45 7	2.93 7	3.14 7	2.51 8	35.92 5	35.10 4	473.78
0.67 6	51.73 6	0.32 6	0.00 1	0.00 1	0.35 5	1.51 5	-0.0109 7	-2.63 3	1.47 5	9.78 3	5.31 5	3.17 7	16.05 8	12.74 8	408.08
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ot Applicable; NPA: Non-performing Assets; CASA: Current Account Savings Account; AWF: Average Working Fund; ROCE: Return on Capital Employed;
ow total score was arrived at, see *How the Banks Were Ranked*, page 78

Decoding

The two-day *Business Today* MindRush 2014 offered huge takeaways for



PHOTOGRAPHS BY SHEKHAR GHOSH

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CEO Success

corporate leaders on how to stay at the top of their game at all times.

By E. KUMAR SHARMA and SHAMNI PANDE



Winners of the Best CEO Awards along with chief guest Ram Charan (10th from left), India Today Group Chairman and Editor-in-Chief Aroon Purie (11th from left) and Manpreet Chadha, Vice Chairman of Wave Group (extreme right)

Whenever we talk of CEOs and leadership, a clichéd image comes to our minds, that of an intrepid leader standing alone atop the corporate ladder. Though essentially vague, it has remained a recurring motif, and for a reason. The CEO indubitably is the face of corporate leadership but what makes a successful one has always been a matter of conjecture. Nevertheless, they are real and India Inc's best and the brightest flocked at the capital for the second edition of *Business Today's* MindRush 2014, the two-day business and management conclave, on November 28 and November 29.

In the backdrop of a potential economic revival, the annual event brought together corporate leaders and the finest management thinkers to deliberate on the theme 'Ride the Tide: Making the Best of Good Times'.

Aroon Purie, Chairman and Editor-in-Chief of the India Today Group, welcomed the gathering and set the ball rolling by expounding on the complexity of the job at hand for a present-day CEO. "Leading a company is a complicated business. It's not only about getting financial returns to satisfy the shareholders but

Peter Docker & Murali Doraiswamy 106

Entrepreneur Session 110

Photo Feature 112

also about strategic vision, customer engagement, employee satisfaction, reputation and responsibility to the community in which you operate. A successful CEO, therefore, is a multi-talented person who plays all the roles he has to play and makes a good profit," he said.

Talking on the theme of the event, he said that there is a sense of excitement about the future of the economy and therefore "it is a good time to discuss and debate on how to move forward and seize the new opportunities that will crop up". Pointing to the country's leadership under Prime Minister Narendra Modi as the key reason for this renewed hope, Purie said, "I think we have a talented leader in charge, who works hard, has boundless energy, will not tolerate corruption and, most importantly, has the right vision. He also has a track record of being a doer and to top it all, he has a clear mandate to do it and these are great reasons for hope."

The welcome address was followed by short addresses on specific topics by select CEOs. Speaking about "staying at the top", Tata Consultancy Services CEO and MD N. Chandrasekaran, said one has got to be paranoid. "There is a culture of entitlement versus the culture of performance. We believe in the culture of performance. Nobody takes anything for granted," he said.

Making a short presentation on "creating a new generation, research-focused drug maker", Glenn Saldanha, Chairman and MD of Glenmark Pharma, said that success involves getting together various elements of business such as having a model that can fund costly R&D. Pointing out that it can take anywhere between 15 and 20 years for a single molecule to get marketing approval, he said, "Patience is important to create and run a research-driven pharma company."

On "how to create and run a world-class airport", G.M. Rao, Chairman and founder of the GMR Group, narrated his journey from 'a

village boy' to building a greenfield international airport in Hyderabad and the successful execution of the brownfield airport project in Delhi.

Keki Mistry, Vice Chairman and CEO of HDFC, speaking on the state of the realty market, said that mortgage penetration is low in India when



“It is a good time to discuss and debate on how to move forward and seize the new opportunities that will crop up”

AROON PURIE
 Chairman and Editor-in-Chief/
 India Today Group

compared to China, East Asian countries and the developed nations. He spoke about how HDFC made itself customer-centric and focussed on offering value-added services. Stressing the importance of ethics and integrity in governance, he said, "In the financial services business, market share can never be a parameter to gauge success. By sacrificing margins or diluting lending norms you can get all the market share you want but that will not lead to sustainable long term success."

Speaking on "how to do banking in tumultuous times", Naina Lal Kidwai, Chairman of HSBC India, said financial inclusion continues to be a key challenge and called for "out-of-

the-box thinking" to address it. Her motto for companies in these tough times was "adapt, adopt and adapt".

The short addresses by select CEOs was followed by the *Business Today* Best CEO Awards. The award ceremony began with Editor Prosenjit Datta explaining the methodology adopted to select the winners. A total of 20 winners were awarded in 22 categories. The awards were presented by Purie, management guru and chief guest of the event Ram Charan, and Manpreet Singh Chadha, Vice Chairman of Wave Group.

Day 2 of the event saw senior corporate leaders make a beeline to listen to CEO coach Ram Charan speak on how real leaders usually think and behave differently. This was followed by strategic sessions, first by leadership and motivation expert Peter Docker on how simple thoughts and speech can convince people and later by P. Murali Doraiswamy, Professor and Director of Mental Fitness Lab, Duke University, on how to take care of brain health (more on page 108).

A panel discussion on trends in India's entrepreneurial ecosystem saw Vishal Gondal of Goquii.com, Radhika Aggarwal of Shopclues.com and Nielsen India Chief Economist Laveesh Bhandari share their views on the fate of e-commerce start-ups in the wake of easier funding.

The second day ended with a session by mountaineer and motivational speaker Jamling Tenzing Norgay on how to stay motivated and bring out the best in people. He reiterated that only a good team can make a difference.

The presenting sponsor of the event was The Wave Group and the communication partner was The Havas Media Group. Swarovski was the lifestyle partner and Hidesign the bespoke gift partner. The celebration partner was Grey Goose. PwC India provided knowledge support for the Best CEOs Survey. ♦

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CEO LEADERSHIP LESSONS

Some of India's best CEOs shared leadership lessons with an eager audience of their peers at *BT MindRush*. By **VENKATESHA BABU**



N. Chandrasekaran
CEO & MD, TCS



Glenn Saldanha
CMD, Glenmark Pharmaceuticals

A Master Class

It was a power-packed gathering of business honchos at *BT MindRush*. And some of India's best known CEOs took the stage to share their mantras for success with the audience.

Leading from the front was Tata Consultancy Services (TCS) CEO and MD N. Chandrasekaran. He spoke about how TCS, India's largest software services exporter, got to the top

PHOTOGRAPHS BY SHEKHAR GHOSH



Keki Mistry
Vice Chairman & CEO, HDFC



Grandhi Mallikarjuna Rao
Founder & Chairman, GMR Group



Naina Lal Kidwai
Chairman, HSBC India

and, more importantly, planned to stay there. Chandrasekaran pointed out that during good times, most businesses tend to press the growth accelerator, even at the cost of efficiency, which comes back to haunt them when the going gets tough.

TCS, on the other hand, decided to take an unconventional route. Chandrasekaran said that, in 2008/09, during the global financial crisis, the company was split

into smaller units, decision making was decentralised and the management travelled across the globe to hear from customers. It identified the mobile (tablet) revolution early on, invested in technologies and adapted it.

"You got to be paranoid. There is a culture of entitlement versus the culture of performance. We believe in the culture of performance. Nobody takes anything for

granted," he said, responding to a question on how the company planned to stay on top. Indeed, being paranoid, decentralising decision making and identifying opportunities and threats ahead of the curve seems to have clearly worked for the IT major.

Glenn Saldanha, Chairman and Managing Director of Glenmark Pharmaceuticals, one of India's chronicled achievers in the pharma-

ceutical industry, pointed out that in the 14 years he has been running the company, revenues had risen from \$31 million to \$1 billion last year. Its market capitalisation, too, had soared. At the time of its IPO in 2000, the market value was \$40 million. Today, it is about \$3.5 billion. The company has diversified under Saldanha. When he took over, 99 per cent of the company's revenue came from India. Glenmark now gets 75 per cent of its revenue from the international markets.

Saldanha underscored that he succeeded because he created an "organisational culture of innovation". While Indian pharmaceutical industry's success in the global generic-drug business is well known, Glenmark is one of the few companies that is investing heavily into basic research. It already has six molecules under various stages of development.

"Knowledge, patience, sharing of risks are critical in a research-driven pharmaceutical company," said Saldanha. It might take anywhere between 15 and 20 years for a single molecule to receive marketing approval, he pointed out, adding that companies should have the patience to nurture innovation. An entrepreneur

largest mortgage lender, shared his leadership lessons and said that ethics, integrity, governance and focus on customer were the keys to success.

Mistry has been associated with HDFC for 33 of its 37 years of existence and has played a large role in helping the company emerge as

infrastructure," said Rao. He highlighted how he overcame challenges to build New Delhi's modern airport. "The Delhi airport project was very complex as it involved coordinating with 58 different government departments."

The group took over the airport

“You got to be paranoid. There is a culture of entitlement versus the culture of performance. We believe in the culture of performance. Nobody takes anything for granted”

N. CHANDRASEKARAN, CEO, TCS

India's leading player in its sector. If today HDFC has one of the best mortgage portfolios, it was mainly due to the systems and practices put in place over the years, added Mistry. "Even the layout of our offices are determined by customer needs and preferences," he said. Relentless focus on customer preferences had shaped the company, according to him.

Another entrepreneur who has faced the test of adversity during the recent downturn, and has emerged

when it was ranked among the worst in the world, said Rao. "Even the toilets were not functioning. We worked with 16 different consultants to build a world-class airport." Never getting emotionally attached to any asset and having self-belief during tough times was the message Rao conveyed to his audience.

Black money has been a bug bear of the Indian economy and a hotly debated political topic of the day. A leader of the banking industry, Naina Lal Kidwai, Chairman of HSBC India, felt that implementation of an effective and transparent tax system, in particular the Goods and Services Tax, would help in curbing this menace.

"You are dealing with a customer who knows more than you. The ability to shop interest rates and loan products is far greater," Kidwai said, indicating that technology was playing a key role in not just reaching out to customers but also in how customers dealt with banks. ♦

ADDITIONAL INPUTS BY
 ANAND ADHIKARI, GOUTAM DAS,

E. KUMAR SHARMA &
 MANU KAUSHIK

@venkateshababu

“Knowledge, patience, sharing of risks are critical in a research-driven pharmaceutical company”

GLENN SALDANHA, Chairman & MD, Glenmark Pharmaceuticals

neurial environment was crucial to nurturing innovation, he added.

In financial services, Housing Development Finance Corporation (HDFC) has been a company that has delivered outstanding performance in the last decade or so and has been a darling of the markets. Keki Mistry, Vice Chairman and CEO of India's

stronger from that experience, is Grandhi Mallikarjuna Rao, Founder and Chairman of GMR Group. The group builds and runs airports, roads and power projects. "Before opening up of the economy, we started and exited 28 businesses. After economic reforms we went into a strategic mode and focused on



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INTERVIEW WITH RAM CHARAN

Long after the interview with Ram Charan has ended, the abiding feeling is one of regret. For, three questions remain unasked: What does he do with his money, does he have any friends not related to his work, and does he ever laugh?

Why, you might wonder, we would want to pose such personal questions to the world's best-known CEO coach. The reasons are simple. One, far more eloquent articles than this have already been written on Ram Charan, the professional; two, he did not give even a hint of a smile during a long session at BT MindRush, nor at this interview that followed; and third, Ram Charan the person, at 75, is no less intriguing than his professional version. Find out for yourself in this edited excerpt of the interview.

How would you like me to address you, Mr. Professor...

No, just Ram.

All right, Ram. According to a profile of yours that appeared in 2007, your status was single and without a family.

Still is (looks grumpy).

Around that time you had bought an apartment in Texas,

your first house.

For tax reasons. I have never been in it, I don't know where it is.

You never moved in?

I don't even know where it is.

How did you handle the process of buying?

I sent my Harvard roommate to buy it, gave him a cheque.

Who is this roommate?

Whoever it is...(pauses, looks grumpier) he is a real estate guy.

Entirely for tax purposes?

Yes, it is legal.

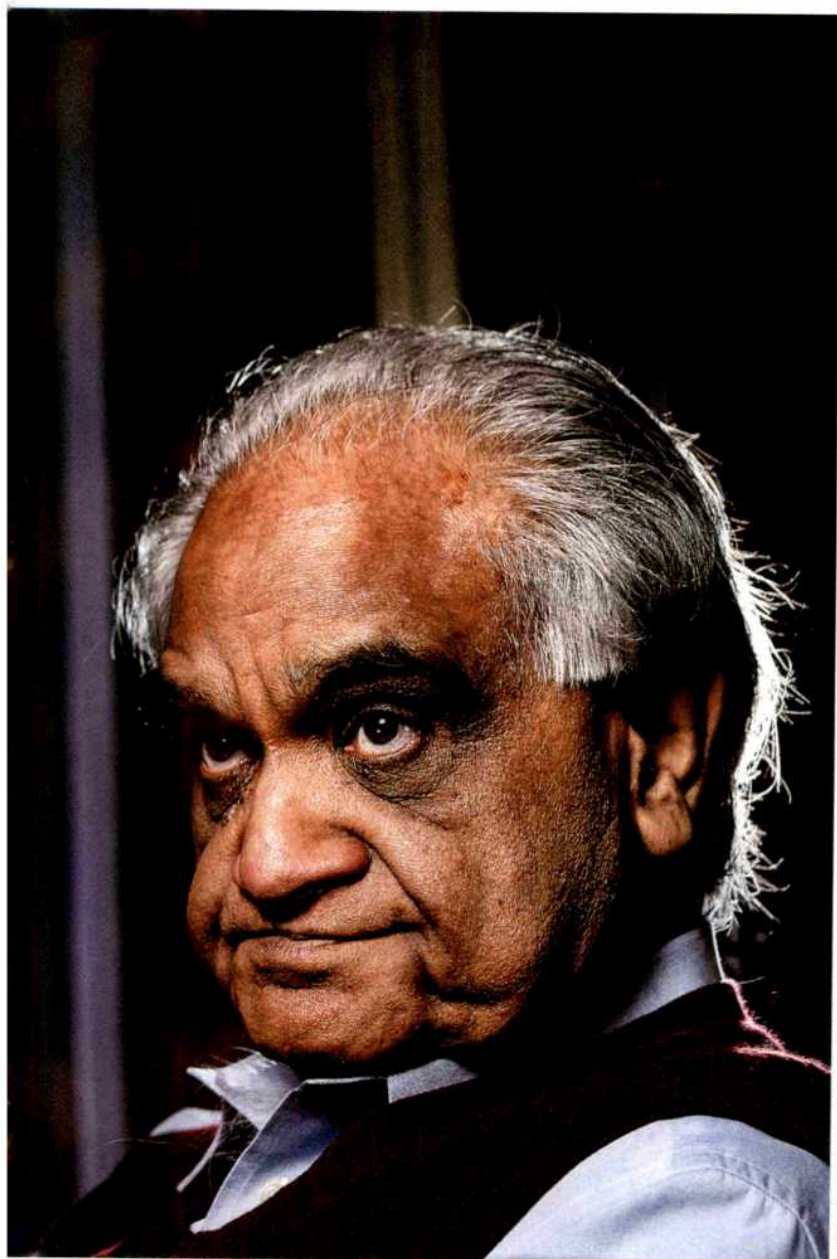
Of course! And the office you have in Dallas?

I have never been in it. You don't serve customers by staying in the

'Nobody Needs My Advice'

Says Ram Charan, who advises some of the world's best-known and most successful CEOs. **By SUVEEN SINHA**





PHOTOGRAPHS BY VIVAN MEHRA

“I never have and I never will [set goals]. I truly believe in the Indian culture of dedication. It has served me well. Do the best you can and learn to be the best. Focus. It will take you there”

office. And there is a new theory: people don't need supervision.

What do you mean by that?

People don't need supervision. You need coaching, not supervision.

Once people have been told what is to be done...

You follow through, you don't supervise.

How do you make a distinction between the two?

You get information back monthly, weekly. But you don't have to sit there and supervise.

So not micromanage?

No supervision. We have an Indian movie, in which Bachchan's son played. What's his name...

Abhishek.

Yes, Abhishek, it is about textile workers.

The movie is Guru; his character was modelled on Dhirubhai.

Whatever it was. He is sitting and watching these workers. Those days are over.

Do you get to watch Hindi

movies?

I can see *Pakeezah* any day.

How many times have you seen it?

Twice.

And you continue to spend every night in a hotel? Your clothes and other things are couriered to you?

Yes.

How much sleep do you get?

I make up on a weekly basis. Forty-eight hours.

Most of it during flights?

Or, like tonight. My flight tomorrow is at one in the afternoon. And I have a CEO to see tomorrow at 11. I have a CEO coming for dinner tonight. We will finish about 10. After that there may be some calls.

What really makes you the Ram Charan?

I never planned to be this.

You famously never set goals.

I never have and I never will. I truly believe in the Indian culture of dedication. It has served me well. Do the best you can and learn to be the best. Focus. It will take you there.

“I have been allowed to work with leaders who were at the bottom of the game, and taken them up... I have picked them [people] when they were 28 and worked with them till they became CEOs of \$160-billion companies...”

Does it help in your line of work to live like this?

You see, I am a lucky man. I am allowed to do what I love to do. Rest is support.

Apart from those who manage your office and clothes, do you have any team working with you?

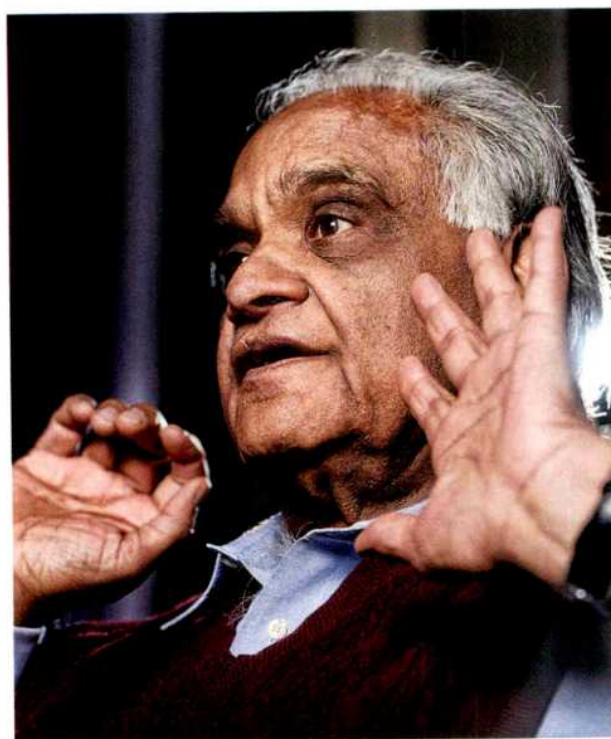
No, in my work almost all is confidential. If you have partners, what happens?

You begin to share things?

That's why. I may be helping CEOs' teams that may include Chinese, Brazilians, Indians. It's not my own team. Confidentiality is their problem.

How do other consultants manage to keep things confidential, those who work with teams?

I don't know. That's their problem.



You keep a crazy schedule. This time in India, what is your schedule like?

It is not a big deal.

It is to a lot of people.

It is not, you serve your customers.

Dedication to the job at hand?

Job. You don't do that minute by minute. It is outcome based. If I am working for you, I want to show you benefit. I am focused that you benefit. And If I can't help you, I should tell you. I have worked with companies for 30 years, 40 years, 45 years.

GE has been the longest, hasn't it?

Still is, 45th year. I have been allowed to work with leaders who were at the bottom of the game, and taken them up. Or I have worked with people – and I do not consider myself as a guru or a coach – and I have picked them when they were 28 years of age

and worked with them till they became CEOs of \$160-billion companies, taken them through.

My work is how do I help this person do whatever is needed. There are times when I am not helpful. I have a situation right now in the US



From L-R: Swaminathan Aiyar, Consulting Editor, ET NOW | Arun Jaitley, Union Finance Minister | NR Narayana Murthy, Founder, Infosys | Sunil Mittal, Chairman, Bharti Enterprises

AWAKENING THE ECONOMIC GIANT

India's economy seems poised to hit the road to recovery, with the new government introducing a number of measures to boost the economy and opening up foreign direct investment in various sectors. Celebrating India's immense potential to emerge as a global economic giant, ET NOW organized the India Economic Conclave 2014, themed 'India: The Giant Awakens'. The power-packed conclave saw the most powerful policy makers engage with the biggest industry leaders to script a new destiny for India.

SESSION	PANELISTS
India: The Giant Awakens	Suresh Prabhu, Sunil Mittal, Chanda Kochhar, NR Narayana Murthy, Swaminathan Aiyar
Make in India: Crafting a Manufacturing Revival	Nirmala Sitharaman, RC Bhargava, Sunil Munjal, Banmali Agarwala, Arun Kumar Jagatramka, Punita Kumar Sinha
Boosting Investment: Make it Simple, Stupid	Piyush Goyal, Marten Pieters, D. Shivakumar, Adil Zainulbhai, Krish Iyer, Sanjeev Aga
Inflation: The Structural Solutions	Rajiv Memani, Chetan Ahya, Dr. Subir Gokarn, Prof. Bibek Debroy, Mythili Bhusnurmath

Watch all the episodes of India Economic Conclave on www.youtube.com/etnow



GUJARAT NRE

Presents



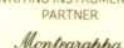
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where the board and CEO have called me. I have had three sessions, and I have come to the conclusion that I cannot help him. And I have to find a person who can help him. I'm not going to leave him in the lurch. It is a very complex company. My responsibility is to get him the right person. I'm ok if he says no to that person.

Who is this person who is more suitable than you?

I can't tell you. That is confidential. This is where consultants fail. Never breach confidentiality – never, even in disguise.

If we were to try and demystify what you do, what really is your method?

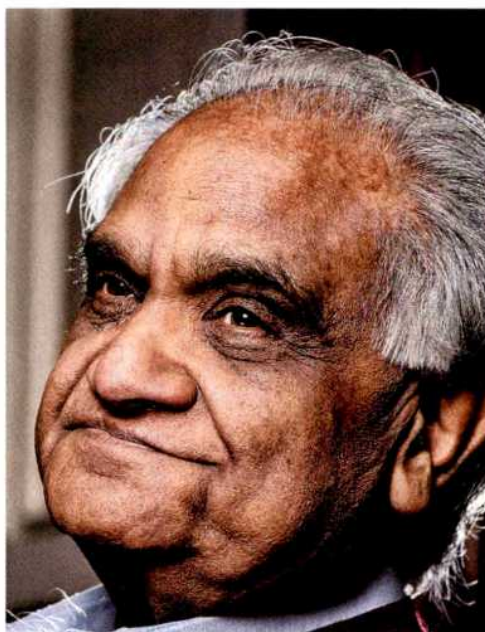
I have no idea. Mine is very simple: how can I help you. I have to figure out whether I can help you or not. The good news is that I am a single person. I don't need the money. The more honest I am, the better I sleep. If you have a consulting firm, you need a budget. I don't need one.

What drives you?

Learning. I have asked people to look back at my early days. I went to the people [who were with me] at my first job in Jay Engineering, Calcutta (now Kolkata). They said they had never seen a person who was so driven for learning. They never had a trainee who did two shifts a day. I did two shifts a day for an unpaid five-month training. At the end of it the General Manager said he wanted to offer me a job. And I was in tears. It was difficult to get a job. But then I went to Australia.

It is said you know corporate America better than anyone else. You know corporate India fairly well. How do the two compare?

My argument is that there is no need



“I have asked people to look back at my early days. I went to the people [who were with me] at my first job in Jay Engineering, Calcutta (now Kolkata). They said they had never seen a person who was so driven for learning”

to compare. Keep your eye on the big prize and what it takes to get there. In outsourcing we lead. I believe we can lead in generics. Why are we comparing? The conditions are different.

Talking about this big prize, you often mention Sunil Mittal...

He knew he had to be number one. He had his eye on the big prize.

But to be number one cannot be the big prize for a lot of other people. What should it be for them?

Define one.

How?

First look at where change is possible... I am a great fan of Mr. Premji.

What do you admire about him?

He is simple, very humble, he built something – not in the same line he inherited.

Very different, just like Sunil Mittal.

Absolutely, and he has no pretensions of being rich. Ordinary clothes, ordinary ways. He is not going to have his own plane, I guarantee you that, no way. He went in coach class, middle seat to America. I travelled with him.

You, too, went coach class?

(Clears his throat) I travelled once.

Who is the one CEO in India who does not need Ram Charan?

All of them. They don't need me.

How is that possible?

They may need me for this little thing, that little thing. They don't need me continuously; hell, no.

You killed my next question. I was going to ask who needs you badly.

Nobody. It should not become a fashion. You have to search what you need, and when you need it.

Is it your usual way to ask a lot

of questions when trying to help people?

I have a reasonably wide knowledge of what happens. I am able to predict ahead of time. So with Google, I can tell them what is coming.

What is coming?

Can't tell you. He (Google) can say fly your own kite, I am ok with that. [Glenmark Pharmaceuticals CEO] Glenn Saldanha is going to get a call from somebody. I am going to arrange it. He does not know it. But I see a fit in a research area. I can bet you five bucks Glenn has not thought of it, but it will be to his benefit.

Thirty-five rupees and forty-seven paise.

Why is cash so important for a company?

Cash is the lifeblood of a company. You have to have cash.

How about the one-page summaries you give CEOs, can that also be traced to your early days?

Yes, many times I could not afford books. So I sat at the back of the class and took verbatim notes. Then I came to the shoe shop and did the sums on the boxes and then wrote the summary of each lecture on one page. Now I look back and say I

The first priority is to fix the plumbing. Get the backlog of decisions out of the way.

Would you count Mr. Modi among the people who do not need your advice?

Why does he? Nobody needs me. Why do you keep worrying about me?

You graduated third in your engineering class at the BHU.

Fourth.

Would you remember where the first three are?

No, I don't even know who they were.

“No country, to the best of my knowledge, had ever written priorities. He [Prime Minister Narendra Modi/India's CEO] has got it. He has got 10 priorities. Let him do it. Democracy permits people to talk, let them talk”

What is in it for you?

Zero. I don't know Glenn. But it will be good for him, good for the company, good for India. The other day I called a CEO I have known for a long time and told him he had to go and see a so and so. Nothing in it for me. I don't need it.

Your family had this shoe shop in Hapur, Uttar Pradesh, that was set up after the cloth shop burned down in 1947. Did you spend time there as a child?

Every single minute after the school, so to speak.

Your insistence on the importance of cash in a company, can we trace it to the learning in this shoe shop?

You must, that is the foundation. To this day I recall the first day sales; I did the tallying.

How much was it?

didn't have to prepare for the exams.

The kind of complex cases you deal with, do you still find it possible to reduce your prescription to a one-page summary?

That's what I do with CEOs. And it's not the summary, it's the entire thing. (Narrates an incident of doing it with one of the best known Indian CEOs but tells us not to print it.)

What will be your advice to India's CEO, Mr. Narendra Modi?

No country, to the best of my knowledge, had ever written priorities. He has got it. He has got 10 priorities. Let him do it. Democracy permits people to talk, let them talk.

What about the follow-up action after the priorities have been announced?

Give him some time. Let him do the 10 priorities. Why get people excited?

You were in the same class.

When the results were published, we had left. They did not publish the names. It is in my grade sheet, number four.

You work with big, celebrity CEOs. India is going through a start-up revolution. What would be your advice to them?

I have them (start-ups as clients) in America. I would ask them the same question: what is their need? The greatest mistake people like me make is to say: 'I have the solution, what is your problem?' I have to learn the problem and see if I can find a solution.

What should be the big prize start-ups can eye?

They have to focus: do they have a customer, and does it work. ♦

@suveensinha

PETER DOCKER/ P. MURALI DORAISWAMY

You can always improve your cognitive skills and abilities, said experts at *BT MindRush*.

By GOUTAM DAS

Igniting Brain Power

It was 3.30 p.m. when the lanky P. Murali Doraiswamy walked up to the stage at *Business Today's* annual conclave, MindRush. "We are at the nadir," said the Professor and Director of Mental Fitness Lab at Duke University, referring to the time of the day. This is a time when an individual's cognitive performance is at its lowest. Just a while ago, the audience had polished off food from the lunch buffet. Their brains had a heavy dump of glucose; their stomach had, perhaps, started signalling the sleep centres in the brain.

Doraiswamy, however, knew how

to keep his audience awake – arguments were one of his tricks. "One of the things I am going to do is challenge one of the earlier speakers, Peter [Docker]. And tell you why some of the things he said was wrong," he said.

Docker is a former British Royal Air Force officer and a pilot – he flew Margaret Thatcher, the late British Prime Minister. He has now metamorphosed into an eloquent motivational speaker who takes forward his friend and author Simon Sinek's theory of *The Golden Circle*. So, what did Docker say that needled Doraiswamy into a "friendly" challenge?

Both Sinek and Docker propagate



P. Murali Doraiswamy,
Professor and Director,
Mental Fitness Lab,
Duke University

“I like the idea of (having) a young child’s brain because then the brain is willing to explore. Don’t get into a routine and get jaded. Challenge yourself with new things every day”

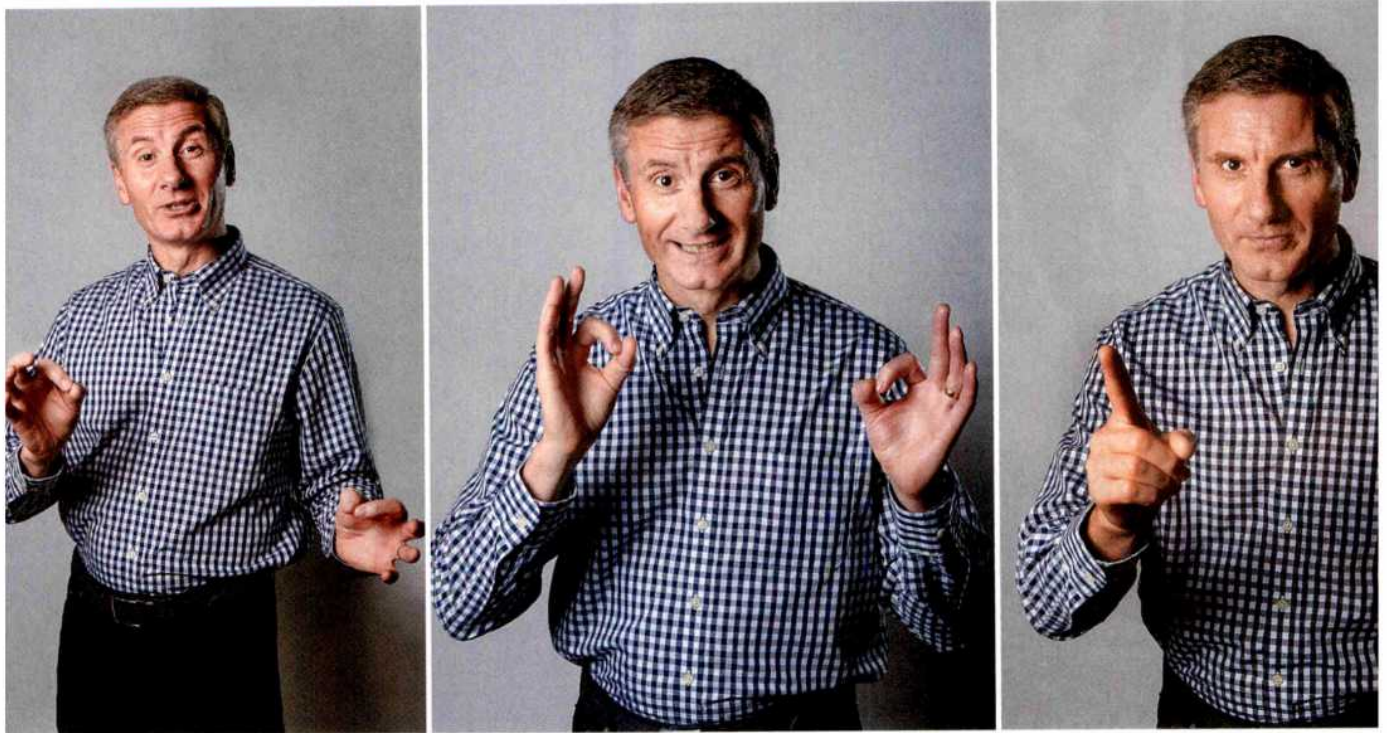
the power of ‘why’. *The Golden Circle* theory has three circles – ‘why’ forms the innermost circle, ‘how’ the middle circle and ‘what’ the outer circle. All corporations know ‘what’ they do, some know ‘how’ they do it, but very few know ‘why’ they do what they do. Why companies exist does not equate to making profits – profits are a result. ‘Why’, according to Sinek and Docker, is the purpose, cause and belief of the organisation and one that ultimately separates men from the boys.

Docker, in his talk at BT MindRush, forwarded many examples on how inspired companies have harnessed the power of ‘why’, with

SHEKHAR GHOSH

“It is the limbic brain that correlates with the ‘why’. So if we don’t know our ‘why’, we can’t think, we can’t communicate, we can’t act. That means we are missing something huge”

PETER DOCKER
Motivational speaker



VIVAN MEHRA

Apple and Richard Branson’s Virgin being two examples. The ‘why’ of Apple is the fact that the company believes in challenging the status quo and in thinking differently. The company doesn’t say they make great computers, which are beautifully designed, so buy one. Apple’s marketing is “inside-out”. It says they think differently. And the status quo is challenged by making products that are designed well. Branson, too, is very clear on his why – it is to positively impact millions of people’s lives and have fun. Apple and Virgin are immensely successful and drive fierce brand loyalty. Both the companies

have been able to make their customers feel connected because they articulated their ‘why’.

“Businesses have realised that manipulation through reducing prices are unsustainable models,” Docker told *BT*. “If you take one product, you can drive the price down and down and then your suppliers can’t afford to supply at that price because it is less than their cost price. People go out of business and people end up not having jobs.” Loyal customers, however, are willing to pay a bit more and go to a business where they feel more connected.

It is here that Docker relates the

importance of ‘why’, or for that matter, *The Golden Circle* theory to biology. Our brain has many portions – at the top is neocortex, which is responsible for rational and logical thoughts. Neocortex correlates with the ‘what’. The middle component is our limbic brain, which is responsible for emotions, trust, loyalty, arousal and memory, among others. “It is the limbic brain that correlates with the ‘why’. So if we don’t know our ‘why’, we can’t think, we can’t communicate, we can’t act. That means we are missing something huge,” Docker said.

What Docker is suggesting is that the limbic system was the most im-

important part of the brain for a corporation because it is this part that controls behaviour. Doraiswamy, however, doesn't quite agree here. Doraiswamy, in fact, had the audience's attention after challenging Docker at the beginning of his talk but avoided revisiting the topic directly.

When *BT* pressed him during an interview later, Doraiswamy explained: "In reality, the frontal cortex is really the one that has been responsible for all the innovations. You could have a limbic system, but you could never have built an iPhone in the first place. The iPhone was built using the frontal cortex. It was cold hard logic that went into developing the iPhone."

According to him, the frontal cortex is the most important for a corporation. "Without that we would be animals. We would be like Wall Street," he says, half-joking. "Greed, hunger, love, sex, scandals, wild swings – that is what all would be if we are limbic."

The debate on which part of brain companies should pay more attention to could have gone on, but Doraiswamy quickly moved on to yet another interesting topic during the interview: How to keep your brain going, make it healthy and wise. Of course, he had tips on what companies should do.

Moderate exercise, good diet, good sleep, stress management, and tricking the brain are good ways to ensure a healthy brain, he said. "You also need to use it. I like the idea of a young child's brain because the brain is willing to explore. Don't get into a routine and get jaded. Challenge yourself with new things every day," he advised. Tricking the brain is thinking young. "When you think young, you can slow down the physical manifestations. Thinking younger slows down the ageing process," he added.

What is a good diet for a healthy brain? "The best diet is Mediterranean (lot of coloured vegetables because it contains antioxidants) and small

amounts of fish. The Indian curry diet is also good as long as you are not eating too much fried stuff," Doraiswamy said. He recommends five to six small meals a day, not a heavy meal. One way to control diet is to use smaller plates. He also proposes the Japanese practice of *Hara Hachi Bu* – eating till you are 80 per cent full.

These days, companies such as Google pay much more attention to what is served in its cafeteria. In fact,

“Acute stress is great and we need it. It is protective. But our body is designed to be in that state for under a minute at a time. However, in a modern society, when we move from one stress to the next, we get into a state of chronic stress”

P. MURALI DORAISWAMY

the company also has sleep pods for employees to nap. "NASA experiments have shown that if you took short naps, it increased cognitive performance by 18 to 25 per cent. Google sees it as positive if you are using sleep pods," said Doraiswamy. Not just naps, sleeping is key to stress control, too. Stress does several things to the brain. One, acute stress

increases attention – if one sees a snake, the brain is super attentive. "Acute stress is great and we need it. It is protective. But our body is designed to be in that state for under a minute at a time. However, in modern society, when we move from one stress to the next, we get into a state of chronic stress," Doraiswamy said.

"The cortisol (a steroid hormone released in response to stress) level goes up, which decreases the attention in the brain. It causes depression, makes you overeat, weakens your bones, and reduces immunity," he added. Great sleep and some free time can prepare one to handle stress. A social support network – for instance, a best friend at work who one can talk to – helps as well. Exercise, meditation, and walks help too.

"A 10-minute walk in a green park can rejuvenate the brain. Yoga and meditation are very good at increasing the parasympathetic system," Doraiswamy said. While the sympathetic nervous system prepares one for dangers, the parasympathetic system triggers the relaxation response in the brain. "If you practice yoga every day, it does the reverse of what stress is doing to you every day. Yoga and meditation also strengthen the circuits in the brain and prevent the damage that happens from stress."

Finally, Doraiswamy also had a word of caution for macho CEOs who like to run marathons, especially if they are in their 50s. "A recent study showed that endurance runners had shrinkage of certain brain tissue right after a race. If they didn't run any more, it became normal in a few weeks time. Your are losing because the brain thinks of it as a stress," he said. Moderate exercise, on the other hand, is healthy for the brain. "It induces new nerve cell formation. So, half hour of exercise at moderate pace – a pace at which one can think – that's the best pace." ♦

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ENTREPRENEUR SESSION

The start-up ecosystem in India may finally be coming of age but pitfalls remain. By TASLIMA KHAN

Celebrating Entrepreneurship

WHAT NEXT?



SHEKHAR GHOSH

Discussing new trends: (From left) Josey Puliyenthuruthel, Managing Editor, *BT*; Laveesh Bhandari, Chief Economist, Nielsen India; Radhika Aggarwal, Co-founder & Chief Marketing Officer, Shopclues.com; and Vishal Gondal, Founder, GOQii.com

There has never been a better time to be an entrepreneur in India. But when there is too much optimism and positivity around, it can lead to the building up of a bubble-like situation. These sentiments were echoed by participants in a brainstorming session titled "India's Entrepreneurial Ecosystem: What Next?" at the MindRush event.

The panellists included serial entrepreneur Vishal Gondal,

Founder of GOQii.com: Radhika Aggarwal, Co-founder and Chief Marketing Officer, Shopclues.com; and Laveesh Bhandari, Chief Economist at Nielsen India.

The discussion opened with entrepreneurs speaking about their past start-up experiences. Many challenges, especially related to funding, have been ironed out for entrepreneurs now, they pointed out. Aggarwal spoke about her previous unsuccessful entrepre-

neurial stints before founding Shopclues, an e-commerce company. "I have been third-time lucky with Shopclues," she said. Gondal spoke about the challenges during the launch of his previous start-up, Indiagames. He founded Indiagames in the late 1990s and sold it to Disney in 2012. He is an active angel investor now and has also launched a wearable gadgets company GOQii.com.

Why are more and more people taking on the risk of entrepreneur-

ship? "The cost of entry into the entrepreneurial ecosystem has gone down dramatically. The only thing that is stopping people is high salaries," said Bhandari. He founded Delhi-based economic research firm Indicus Analytics back in December 2000, which was acquired by Nielsen India in 2014.

Entrepreneurs have much better access to resources than before. "Earlier, if you had to start a business, there was so much that you had to look at completely from scratch, including what technology to use and how. Now it is much faster because so many things are already available," said Aggarwal.

Gondal pointed out that the risk-taking appetite among entrepreneurs has now gone up. "Today, there are people who have left everything and they ask me what to do next. This means entrepreneurship is being celebrated," he said.

This certainly appears to be a great time to be an entrepreneur and scores of start-ups are raising huge amounts of funding, said the speakers. "When I started my first company in 2008, I did not know what venture capital meant," said Gondal, who started his first venture when he was only 16. "Then I got to understand it as something as good as a loan that need not be paid back," he added in a lighter vein.

However, amidst the euphoria of start-ups raising millions of dollars in funding, a bubble-like situation seems imminent. "There will always be a number one and number two in any industry and they will command

high valuations, whether it is e-commerce, travel or gaming. But what happens to others, especially vertical commerce companies selling everything from spectacle frames to lingerie?" asked Gondal.

The valuation of start-ups needs to be rational. The process of valuing companies on the basis of GMV (Gross

should not ignore businesses which don't scale up very fast but still have potential to grow. "A lot of opportunities get lost because investors are looking at those that grow 10x every year, while most businesses grow only at 2x or 3x," he said.

The panellists also agreed that the entrepreneurial ecosystem is

“The cost of entry into the entrepreneurial ecosystem has gone down dramatically”

LAVEESH BHANDARI, Chief Economist, Nielsen India

Merchandise Value or gross revenue) is not justified, said Gondal. "It is like valuing banks on the basis of crores of money that they have in deposits, while their revenue is only a percentage of that which they charge as fee." Gondal has survived multiple bubble scenarios, including the dot-com bust in early 2000. He has been through a phase when investors backing Indiagames were pushing the company to invest in advertising. But when the crash happened, investors deserted the venture. The only way to survive was to have a real business that made money. That meant laying off people and giving up expensive office spaces. "Until entrepreneurs are getting investment they are not worried about cash because someone else is funding the losses," he said.

Bhandari said that start-ups

unlikely to go through upheavals similar to that of the dotcom crash in early 2000. This is largely because of the fast adoption of Internet and smartphones that is leading to people buying and consuming online. Also, mergers and acquisitions are helping start-ups acquire scale rapidly. "Exits like redBus and Facebook buying an Indian company also show that the whole mergers and acquisitions space is heating up," said Gondal. "I believe there could be about 25 start-ups with a billion-dollar valuation in the next 12 to 18 months."

Entrepreneurs today appear smarter and better equipped to face tough times. "As compared to the late '90s, entrepreneurs are much better prepared to handle a bubble situation," summed up Bhandari. ♦

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PHOTO FEATURE

A Feast of Ideas

BT's MindRush conclave, held in The Oberoi, New Delhi, on November 28 and 29, attracted India's top corporate honchos. The inaugural day also saw the giving away of the Best CEOs awards, a BT study with knowledge support from PwC India. The Wave Group was the presenting sponsor of the event while the Havas Media Group was the communication partner. Swarovski was the lifestyle partner and Hidesign the bespoke gift partner. The celebration partner was Grey Goose. Glimpses from the event:

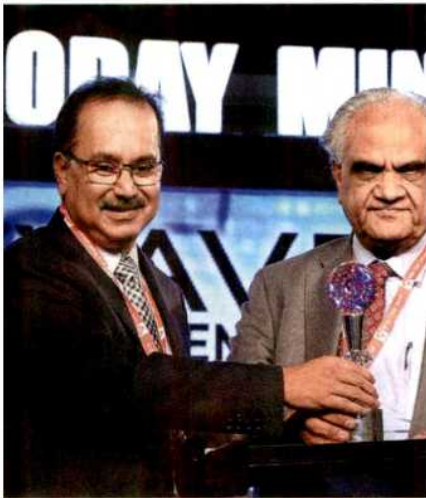


The Who's Who of India Inc took part in the two-day event

Chief guest and CEO coach Ram Charan and India Today Group Chairman and Editor-in-Chief Aroon Purie unveil BT's Best CEOs issue



PHOTOGRAPHS BY SHEKHAR GHOSH



G.V. Prasad, Co-chairman and CEO, Dr Reddy's, won the Best CEO award in the category of large companies



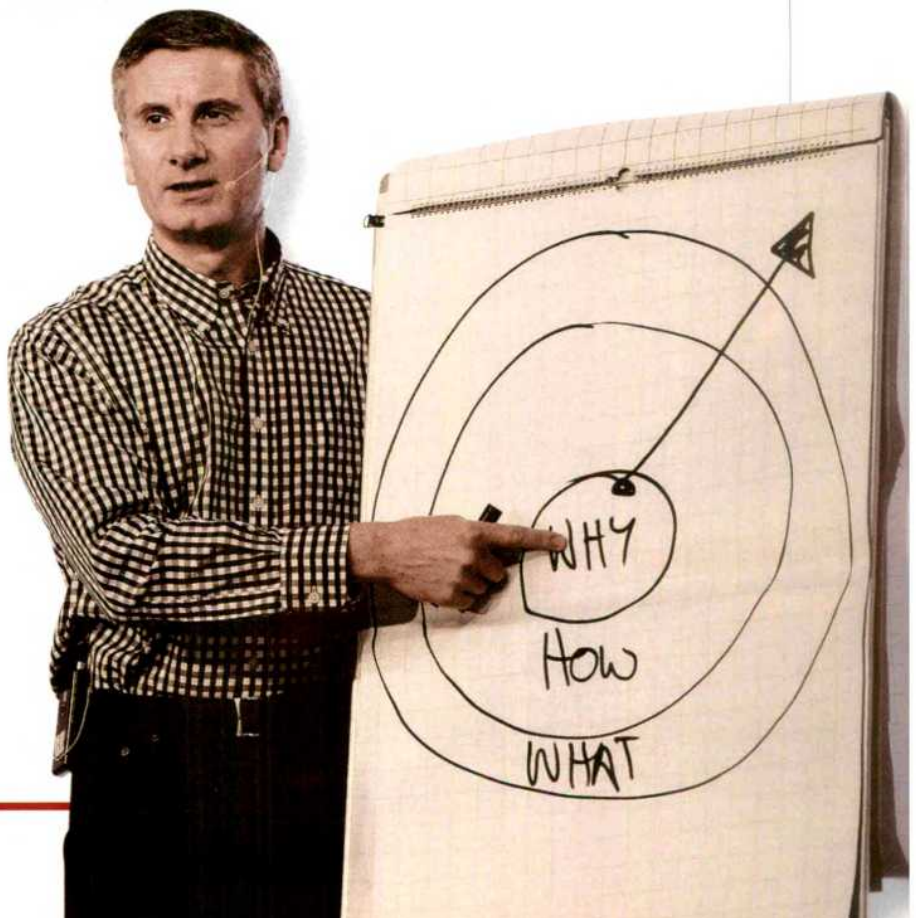
Kapil Mehan, MD, Coromandel International, won the Best CEO award in the category of agriculture and allied (large companies)



P. Murali Doraiswamy, Professor and Director of Mental Fitness Lab at Duke University, gave a talk on improving mental fitness



TCS CEO and MD N. Chandrasekaran (left) receiving the award for India's Best CEO from Ram Charan. Chandrasekaran won the award jointly with Anand Mahindra of M&M

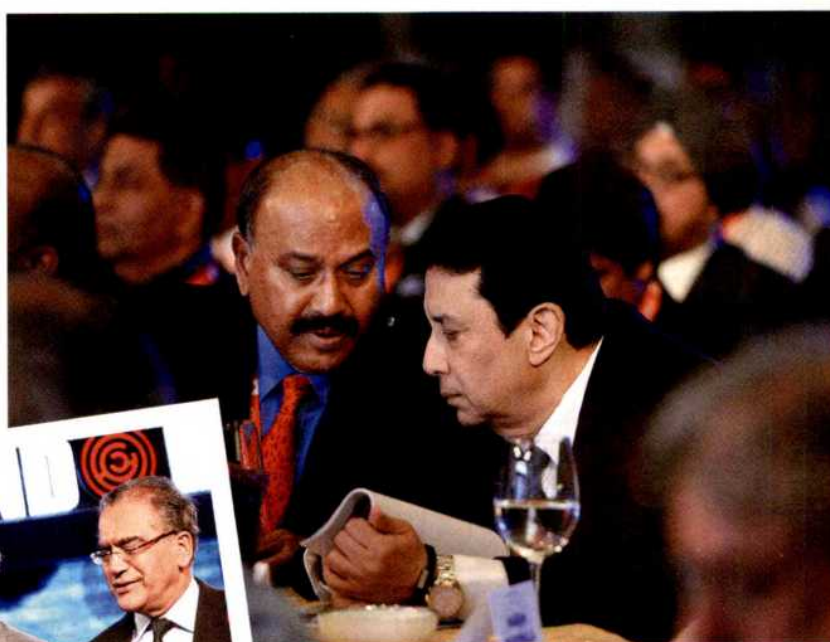




Arun Kumar (second from left), Founder and Group CEO, Strides Arcolab with his family. Kumar was adjudged the Best CEO in mid-size companies and also in the category of large pharma and health-care companies



Harsh C. Mariwala, Chairman, Marico, receives the award for Best CEO in the category of mid-sized FMCG companies



Himanshu Kapania (left), MD, Idea Cellular, receiving the award for Best CEO in the category of large telecom companies, from Ram Charan and Aroon Purie



Grandhi Mallikarjuna Rao (left), Founder and Chairman, GMR Group, with Keki Mistry, Vice Chairman and CEO, HDFC. Both won Best CEO awards

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L B N L LAST BUT NOT LEAST

BOOKS 121 LEADERSPEAK 126

TIPS & TRICKS FOR SOME SMART CLICKS

THE UBIQUITOUS SMARTPHONE CAMERAS HAVE MADE PHOTOGRAPHY PROLIFIC. HERE'S HOW TO MAKE A BETTER USE OF THEM. By NIDHI SINGAL

You have a 13-megapixel camera on your smartphone or maybe even more. You rely on it for almost all the photography knowing well that it is not the megapixels but the image sensor that matters more. The camera sensors of smartphones have certainly evolved over time but they are still no match to the ones in the DSLRs. Here are some tips and tricks that will help you capture great images using your smartphones.

RESOLUTION GAME: Most images captured on smartphones make it to online platforms like Instagram, Facebook and Twitter. So always

choose the highest possible resolution in the camera settings. This helps one capture better quality images that will look good on big laptop displays or even in prints.

USE BINOCULAR TO ZOOM: The optical zoom in the DSLRs can zoom in and capture pictures without compromising the image quality. But that's not the case with the smartphone cameras; the digital zoom is not good.

While there are many zoom lenses available for smartphones, you can actually do the trick without spending a penny. If you have a binocular with you, hold it steadily in front of your camera lens and click an image.

CROP, NOT ZOOM: Since smartphones don't have optical zoom, it is better to capture an image, then zoom in and crop it. Digital zoom can blur image and compromise the sharpness of a picture.

MACRO-SHOT TRICK: Some of the smartphones are good to take macro-shots and even have a dedicated mode for the same but this is not the case with every smartphone. So if you want to capture a macro-shot, there are two simple ways. You can use the lens of the small, pen-sized torch and place it in front of the camera lens.

You can also attach the torch using tapes on the side without covering the lens. Once done, you can easily capture great macro-



shots. If you don't have the torch, you can even add a single drop of water on the lens and it will do the trick. A drop of water on the lens does not damage the phone.

SELFIES FROM iPHONE: Thanks to the selfie culture, the front-facing cameras are getting better. But while capturing a selfie one often ends up capturing one's arm in the picture. A great way of capturing selfie on an iPhone is to use the earphone. Just plug it to the earphone jack, place the phone on a stable surface and use it as a shutter key to capture images.

LIGHTING: For better pictures during bright daylight, avoid direct sun-beam on the face of the subject. If the

sun is too bright, prefer having your subject stand in a shade yet it should be the brightest spot.

LOW-LIGHT PHOTOGRAPHY: Most camera phones fail in low light. All you can do is keep the phone stable while capturing the image. The reason behind this logic is that in low light, the shutter speed slows down as it allows more light to get in. So it takes longer to capture the image.

UNDERWATER PHOTOGRAPHY: Other than Sony Xperia Z3 and Samsung Galaxy S5, there aren't any phones that are waterproof and can be used for underwater photography. And even these phones have some limitations.

A more convenient way to use a phone underwater is to either pack it in a tight zip lock or special underwater covers. If using it from the surface, you can even use a glass. Place the phone upside down in a clear glass. Put the glass in the water and capture the image. But be careful that the water doesn't enter the glass.

CLICK LOADS OF IMAGES: Gone are the days when you had to be extra cautious about capturing the number of images. With digital cameras replacing the film-based ones and the increasing storage space on smartphones, you can capture as many images as you want. For a clear image, always keep the camera lens smudge-free.

TABLET WITH A DIFFERENCE

Lenovo's Yoga Tablet 2 is great, both design and performance-wise, without being overpriced. **By NIDHI SINGAL**

All smartphones look more or less alike. The same stands true for most Android tablets, too. However, Lenovo has once again adopted a different approach with its Yoga tablets. Continuing with an all-touch interface, Lenovo has added an innovative design element to this eight-inch tablet. There is a hinge on one end, making it a lot more comfortable to hold. It even raises the tablet slightly on a flat surface, making it convenient to type. The tablet can be used in different modes, thanks to the hinge and the kickstand. Interestingly, there is a loop in the stand that can be used to hang the tablet on the wall. The memory card slot and SIM card slot are hidden in the flap. The overall build quality is superb.

Lenovo has launched a number of models in its Yoga series and the one I am reviewing is an Android tab. It has

an eight-inch full HD display with 1920x1200 pixel resolution, which is bright and sharp. Watching multimedia content on it was a delight. The sound output on the JBL speakers was superb. Running on Android KitKat, it has got the 1.86 GHz Intel Atom Z3745 processor with 2 GB of RAM. There wasn't even a single second where I experienced any lag. I was able to run heavy graphic apps with ease. Streaming HD videos from YouTube was also smooth.

Lenovo has loaded a custom UI and I took some time getting used to it. The company has also added some pre-loaded apps on this tab. For connectivity, there is 3G/Wi-Fi option. The camera, too, has become an important part of the tablets and this one is equipped with an 8 MP rear camera and a 1.6 MP front facing one. The rear camera is on the hinge and is a decent performer. The tablet's battery backup is also impressive.

BAG IT OR JUNK IT:

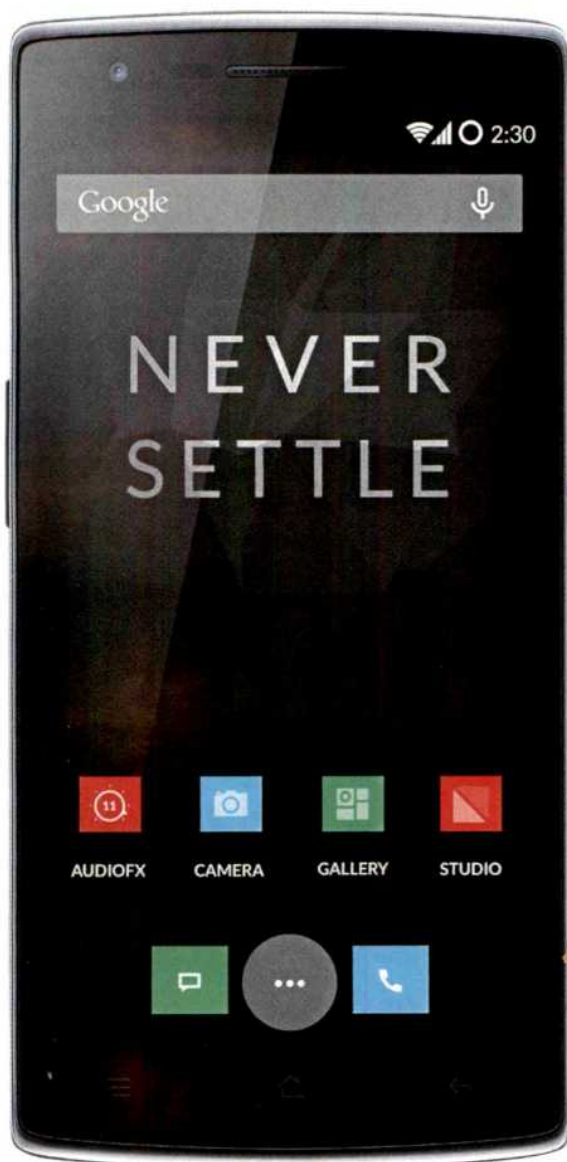
The best Android tablet at ₹20,999

RATING: 4.5/5

PLUS: Design, performance

MINUS: Camera





BAG IT OR JUNK IT:

Available exclusively on Amazon.in, it has 64 GB internal storage, and at ₹21,999, it is quite a steal

RATING: 4.5/5

PLUS: Display, price

MINUS: No Cyanogen for future stocks

OUTCLASSING THE COMPETITION

OnePlus One's arrival was highly awaited, and the device does not disappoint.

By NIDHI SINGAL

The OnePlus One is one of the most awaited smartphones of the year. It is a flagship smartphone, but is priced at less than half the cost of the iPhone 6 or the Samsung Galaxy Note 4.

The first smartphone from OnePlus, the One has the best set of specifications. A solid built, 5.5-inch full HD touch display, 2.5 GHz quad-core processor on Snapdragon 801 chipset, 3 GB of RAM, 64 GB internal storage, Cyanogen OS based on Android 4.4, and much more.

The One weighs 162 grams and has a slightly curved back from the edges that make it look sleek and easy to grip. The 64 GB variant launched in India has a sandstone finish that looks good. The front is neat and has a OnePlus logo along with Cyanogen written on the rear. Running on CyanogenMod version 11 based on Android 4.4, the user interface is simple. The phone offers all Google services and has two themes that completely change the look of the UI, including app icons and fonts.

I spotted gestures under settings where double tapping unlocks the display, drawing a 'v' turns on the torch and drawing a circle launches the camera, all from the lock screen itself. There wasn't any lag while downloading apps, switching between apps and even playing heavy graphic games.

At times, I was not able to search contacts from the dial pad. However, just shutting the dialer app and launching it again worked. The 13 MP camera onboard does a decent job under proper lighting. There is a 5 MP camera for capturing selfies. There is also an option of capturing videos at 4K resolution. The One has two SIM trays, one for a nano SIM and the other for micro. Also, the 3,100 mAh battery easily lasts a day, but it takes three to four hours to fully charge it. While the initial stocks of the One come loaded with Cyanogen, OnePlus is working on its own operating system that will be loaded on the device to be shipped to India in the future. ♦

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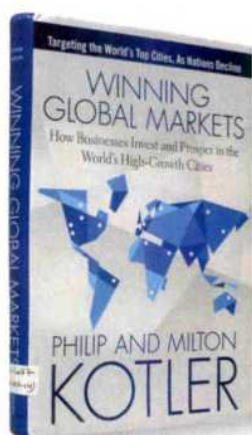
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Growth Engines of Future

It is time to focus on leadership of megacities, not states, to spur development



Winning Global Markets

By Philip & Milton Kotler

John Wiley & Sons

Pages: 288; Price: ₹434

In 1947, South Asia had well-known cities – Bombay, Calcutta, Madras, Delhi, Dacca, Lahore and Karachi. The masters of these cities were the powerful mayors and city corporations. But since Independence, India's biggest cities have declined in relative importance. Bombay's sway no longer extends over the Persian Gulf, and Calcutta and Madras have lost their Indian Ocean clout to competing cities. A major reason has been the neutering of city governments, patronisingly called Urban Local Bodies (ULB).

Marketing gurus Philip Kotler and Milton Kotler (who has lived part-time in China over 14 years) provide a reality check in their book *Winning Global Markets*. They assert that large cities are more important than nations. Large multinational companies (MNCs) are more important than small businesses. In tomorrow's brave new world, the interplay between megacities and MNCs will determine prosperity.

'City regions' in the developed world will lose ground to those in the developing world. In 2010, there were 8,000 MNCs (defined as those with annual revenue exceeding \$1 billion), of which 73 per cent were located in developed world cities. By 2025, there would be an additional 7,000 MNCs in developing city regions. The book dwells on American MNCs and Chinese cities. In India's context, it would perhaps be MNCs from Japan, Korea and Asean investing into Indian cities.

The Indian private sector has long understood urban markets. The runaway success of the IPL, featuring city-based cricket teams, now extends to football and kabaddi. City-specific marketing campaigns are being mounted. Kotler's lessons apply to why Bangalore has been a magnet for global companies. The book answers three questions: how do emerging city re-

gions ensure greater MNC investment in their cities; how do MNCs decide which cities to invest in; and how do state governments support their cities in this cause. The authors suggest that every large city needs a leadership group to work out plans for attracting investors and skilled workers.

The key is a strong political city leadership, with a City Economic Development Agency employing high-quality teams. We see chief ministers promoting their states as investment destinations. N. Chandrababu Naidu's success in marketing Hyderabad to MNCs was an exception.

A recent McKinsey report talks about the 49 Indian city regions that will see the most growth till 2025; the cities will account for 77 per cent of incremental GDP. However, state governments often deny this power to city leaders. Harvard Professor Edward Glaeser comments in his book *Triumph of the City*, "One of the worst aspects of Indian democracy is that power is often lodged at the state rather than the city level, and states are often dominated by rural votes, who have far more representation per capita."

In a recent smart cities conclave, Urban Development Minister Venkaiah Naidu had emphasised the need for good urban leaders. Prime Minister Narendra Modi says his team includes state chief ministers; it should expand to cover megacity leaders too. Modi could energise city political leadership teams by meeting the mayors. Or is it just easier to convert megacities into metropolitan states with their own chief ministers? The political context of empowered cities implies that India can stimulate virtuous competition by unleashing political leadership at the city level. ♦

SHAILESH PATHAK

(The author is Executive Director of Gurugram-based Bhartiya Group)

In tomorrow's brave new world, the interplay between megacities and multinationals will determine prosperity across the world

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Job ID: 16232542

Description: MBA with 7-9 years of experience in Marketing/ Sales/ Advertising/ Business Development, having strong networking and communication skills, ability to write detailed proposals etc.



Financial Software & Systems Private Limited

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Location: Bangalore / Bangaluru
Job ID: 16248198
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Juniper Networks Inc.
Software Engineer Staff - Platform Software
Location: Bangalore / Bangaluru
Job ID: 16248138
Description: Software technical lead who loves solving impossible problems and has lead multiple cutting edge technology development efforts.



Teradata
Teradata Developers
Location: Mumbai
Jobs ID: 13684509
Description: 4+ Years of Teradata Development experience.



NCR Asia Pacific Pte Ltd.
Technical Architect
Location: Hyderabad / Secunderabad
Job ID: 16241691
Description: Minimum 7 years of experience in software design and development.



Fidelity Business services
Systems Analyst
Location: Bangalore / Bangaluru
Job ID: 15222220
Description: Excellent communication skills and ability to interact with all levels of end users and technical resources.



RR Donnelley India Outsource Private Limited
Senior Testing Engineer
Location: Thiruvananthapuram / Trivandrum
Job ID: 16250870
Description: Responsible for preparation of test cases and run tests on applications developed by the software team.



iRekrut
Android App Developer
Location: Gurgaon
Job ID: 16164316
Description: Graduate with 1-3 years of experience building Android apps from scratch.



Verizon Data Services India Private Limited
Analyst-System Development
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Job ID: 16223168
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Jindal Steel & Power Limited.
Communications and Public Affairs
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Jobs ID: 16126968
Description: Press Release: Attend university events, liaison with media, write Press releases, get them published in online and print media.



Manokam
Sales Executive
Location: Baroda
Jobs ID: 16238391
Description: Developing new client retain the existing clients, To respond incoming queries and ensures the resolution of service etc.



Angel Broking Limited
Relationship Executive
Location: Pune
Jobs ID: 16258805
Description: Looking for Sales Professional with minimum 0 to 4 years' experience in Equity Sales.



Roland and Associates
Business Development & Client Service Executive
Location: Bengaluru / Bangalore
Jobs ID: 16210741
Description: New client development ensure recurring business for Permanent & Temp Staffing Services.



2COMS Consulting Private Limited
MM - Business Development Executive
Location: Karnal, Hyderabad / Secunderabad
Jobs ID: 16247969
Description: Sourcing business, maintaining relationship with existing clients, Identifying and perceiving new avenues for business development.



Piramal Enterprises
Management Trainee / Marketing Executive
Location: Delhi
Jobs ID: 16122321
Description: The candidate must be having MBA in Marketing/Sales, Visiting various institutions in Delhi-NCR.



KRM Global
Direct Sales
Location: Mumbai, Hyderabad / Secunderabad
Jobs ID: 16248183
Description: Looking for Relationship Mngtr /Relationship Executive- Direct Sales with good communication skills.



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Jobs ID: 15886381
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General Ledger Pilot
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Job ID: 16085410
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UnitedHealth Group
Manager - General Accounting
Location: Hyderabad / Secunderabad
Job ID: 16253198
Description: This position requires the candidate to have a very good understanding accounting.



Sand Martin Consultants
Sr Accounts Executive
Location: Noida
Job ID: 16251887
Description: Entry of all vouchers relating to Cash, Bank, Journal, Sales, etc.; Realizations, etc. in Tally with full details on daily basis.



Quotient Consultancy
Accountant
Location: Mumbai
Job ID: 16188523
Description: Relevant experience of 2-3 years of handling VAT related matters. Has to be extremely good at VAT/service tax matters.



Golden Opportunities Private Limited
AM - Insurance Reporting
Location: Gurgaon
Job ID: 16252638
Description: Looking for candidates with 3+ years of experience in insurance reporting.



dEEVOiR Consulting Services Private Limited
Project - Assistant Manager / Manager
Location: Gurgaon
Job ID: 16190261
Description: Bcom/ Bsc with 3 - 8 years of experience in operations in service delivery as Team member or Team Lead.



Misys Software Solutions India Private Limited
Revenue Assurance & Billing
Location: Bangalore / Bangalore
Job ID: 15234101
Description: Expert in IFRS / US GAAP & SOX Compliance, Production of accurate, unambiguous error free billing and accounting.



Sampoorna Computer People
Group Finance Manager
Location: Bengaluru / Bangalore
Job ID: 16157265
Description: Implementation of Operational Systems, Processes and Tools etc.

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PRAVEEN KENNETH
Co-owner, Chairman & MD
L&K Saatchi & Saatchi

RACHIT GOSWAMI

It's been nearly a year since Publicis Groupe took control of Law & Kenneth (L&K). **PRAVEEN KENNETH** speaks to **AJITA SHASHIDHAR** about the new dynamics, among other things:

L&K was a successful independent creative agency. How has life changed since the Publicis Groupe acquired you?
L&K's success of being the largest independent agency in a short span of 12 years has added to the growth strategy of gaining dominance for the Publicis Groupe in India. As you know, L&K management took over the Saatchi & Saatchi operations and merged both the entities to create L&K Saatchi & Saatchi. It's the coming together of a large, independent, young, growth engine with the iconic global stature of Saatchi. L&K's entrepreneur spirit and "Anything is possible" attitude has made it successful. It would be stupid to let go of what's really made it successful. Nothing has changed. We continue to grow with much vigour and look forward to adding flavour globally.

Has there been a difference in the way you approach a campaign now that you are part of a conglomerate?
Our merger doesn't change our clients [or] market realities. It will, however, enable us to be better equipped and smarter in dealing with the growing market challenges of our clients. The world of communication, as we know it, is dead, and the new world is reinventing itself every second. The digitisation of our consumer is much faster than

our ability to map them. Big data is of no use if you don't know how to use it.

How does L&K complement the Publicis Groupe?

In truth, the digital world is one of chaos. It's multiplied by infinity in reality. What will make us worthy partners for our clients is to make sense and stay abreast of this chaos, and play and win in this chaos. The Publicis Groupe was the first to realise this and moved to invest and partner with the pioneers in this space globally. Understanding the need to embrace the chaos and learning to thrive on it makes us complement the Publicis Groupe.

What are the advantages of being part of a big group?

You are in the frontier of the digital world. You are seeing things much earlier and much better. Anticipation is everything. And you anticipate better. The Publicis Groupe has invested in ensuring that.

What are the disadvantages? Do you miss being an independent agency?

There is a spirited romance with one's own self while being single. And there is a heady romance when you are in a great relationship. Both have its pains and joys. We have moved according to the life stage of the organisation and the business need and the path is wise. ♦

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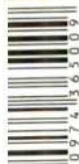
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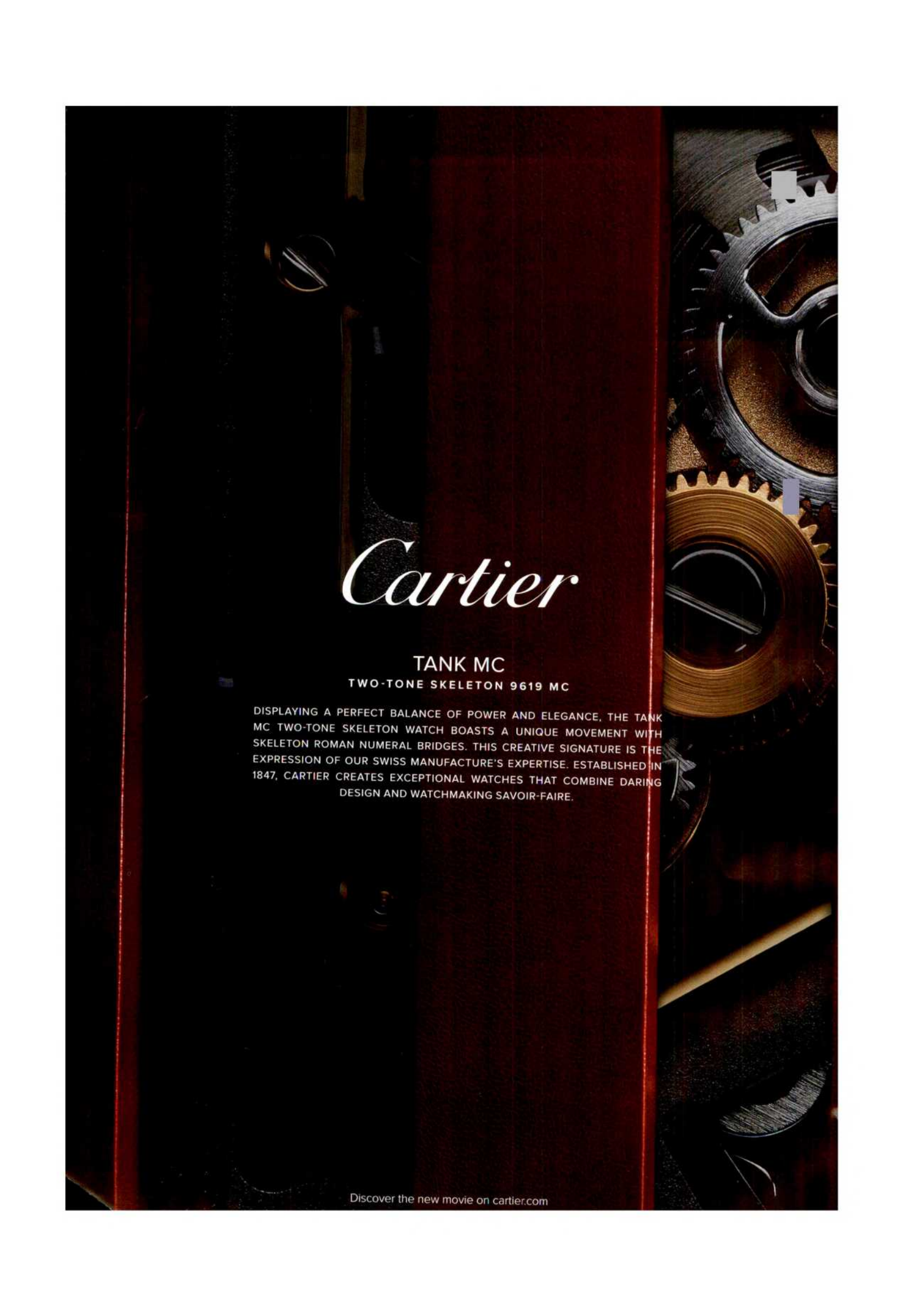
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THE POWER RUSH

Arup Roy Choudhury,
Gautam Adani, Cyrus
Mistry, Sajjan Jindal and
Anil Ambani are on the
prowl. Deals worth
₹ 23,000 crore have
already been struck
for 3,600 MW...

After spending years in a
the power sector is seeing a flurry
deals. And it is separating the men from



The background of the advertisement is a dark, rich brown with a subtle vertical texture. On the right side, there is a detailed, close-up image of watch gears, showing the intricate teeth and metallic surfaces of the movement. The gears are rendered in a way that suggests depth and precision.

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From the Editor

Purchasing Power

After the Electricity Act, 2003 was passed, a large number of private companies started building big power plants across the country. Most of them were thermal (coal-based) plants, though there were also hydroelectric ones and those that were depending on gas from the KG basin for fuel.

Several of these would-be power barons were people who had made their money from other infrastructure projects – roads, ports, airports. Power was seen as a great new opportunity by businessmen for several reasons. For one, the then UPA government seemed really keen on reforming the power sector. Two, the country was seriously power-starved – the gap between generating capacity and electricity demand was huge, and growing. Finally, for many of the infrastructure players, this seemed like a logical extension of their business.

Between 2004 and now, nearly 150 GW of power capacity was built. Unfortunately, many of them ran into trouble almost immediately. Several of them had fuel supply issues. Gas from the KG basin had flattered to deceive. Meanwhile, international coal prices had shot up, while Coal India was not producing enough

to provide all that was required by all the customers who had signed fuel supply agreements with it. And in some cases, disputes over price of selling power to distribution companies created problems for the newly-built generating plant. Over the last three or four years, quite a few of the new power plants were either operating at sub-optimal capacity or not producing at all.

There were other problems as well in the industry. In some cases, though promoters had sunk in a fair amount of money, they could not complete the plants they were building because of environmental clearances, land acquisition problems and other such issues.

The situation soon spiralled out of control for many of the power firms. In the boom years of the economy, they had borrowed heavily at low interest costs. Given their ambitions, most of the players were over-extended. None of which would have mattered if the economy had kept doing well. But as the downslide started on the overall economic front, and as interest costs rose, the debt burdens of the power plants threatened to take down the other businesses for many of these corporate titans. Lenders also started pushing them to sell off some power plants to reduce their overall debt burden.

Till the early part of last year though, while there were plenty of sellers, buyers remained scarce. This was because no one knew whether the new government would be able to solve the power sector problems – and they were waiting for some signals. Over the past six months, there has been a flurry of deals, and more deals are in the pipeline. Some players are exiting the sector altogether or bringing down their interests rapidly. Meanwhile, the buyers are doubling down their bets to augment capacity. Interestingly, some of the buyers are loading on even more debt to pick up everything they can.

Our cover story this issue, written by Assistant Editor Anilesh Mahajan, looks at the dealmakers, their ambitions, and whether these deals will change things for the overall power scenario in the country.

In this issue, you will also find some interesting stories on the microgrid eco-system (page 60), the proposed payment banks (page 72) and the return of Tata Global Beverages to its home base. And, of course, do not miss the business confidence index (page 30).



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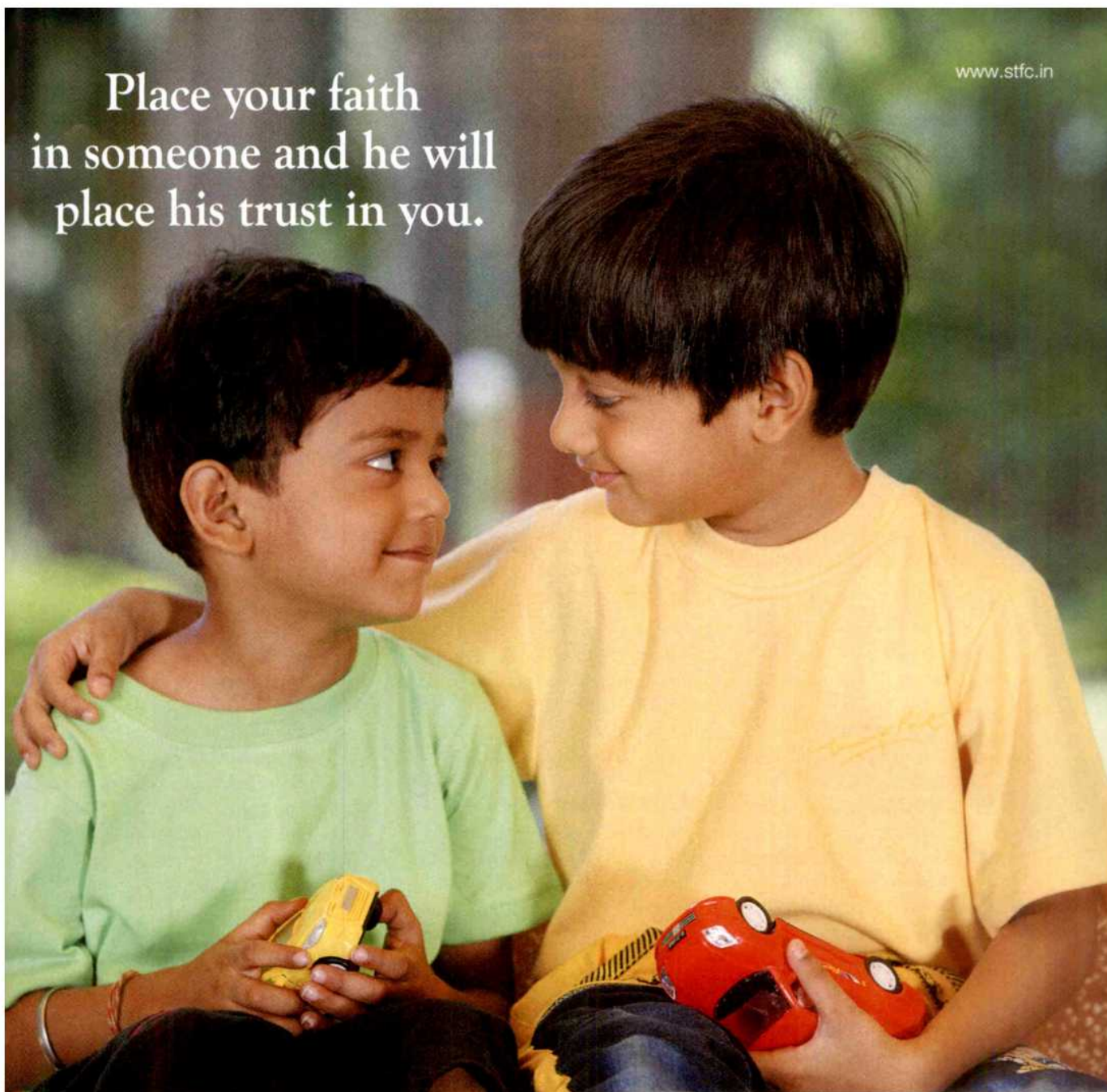
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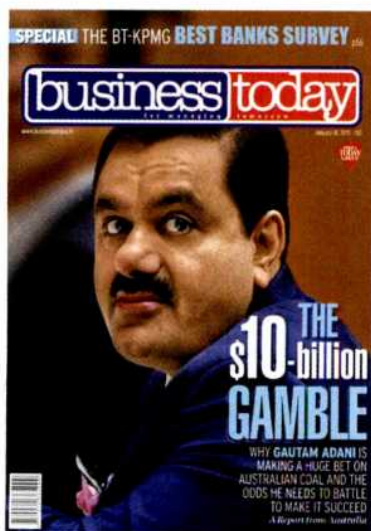
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Re: Letters to the Editor



Adani's Big Bet

This refers to your cover story, *Adani's \$10-billion Gamble* (January 18, 2015). The article nicely analyses Gautam Adani's expanding empire Down Under. But why is he betting with borrowed money on the black diamond (coal), which is now losing its glitter? What's the point in making such a massive gamble? In the past, he has seen more failures than successes. Hope the economic and political environment will be friendly to him and help

make his dream projects a success.
Abhinav P., New Delhi

Banking Business

This refers to the *Business Today*-KPMG study on banking sector (*India's Best Banks*, Jan 18, 2015). *BT* has well appraised the banks' operations in India through its rankings. In the mid-sized segment, IndusInd Bank deserves all applaud. Also, cooperative banks' contribution to the economy of the country is quite appreciable. But I fail to understand why State Bank of India, in spite of the biggest bank and with the largest number of branches and major operations in the rural belt, has not performed well in capital markets. I think the banking business will be more lucrative, provided the central government gives the banking industry tax benefits in the coming Budget 2015.

Akhilesh Kumar Sah, Faizabad

Customer Service

This refers to your stories on the banking sector (January 18). Till Prime Minister Narendra Modi launched Jan Dhan bank account campaign, four out of 10 adults in India did not have a bank account.

It is pity to say that there is not even a single PSU bank which provides satisfactory services to the poor and middle-class customers. The banking regulator – Reserve Bank of India – should review performances of the nationalised banks periodically, and give the rankings based on customers' satisfactory services like KYC, passbook updating, issuance of DD, opening of account, and issuance of TDS certificates.

Mahesh Kumar, New Delhi

Scholarly Articles

This refers to your Anniversary Issue (Jan 4, 2015). Kudos to your team and the contributors for the scholarly articles. This issue is more special as India Inc is focusing on the importance of the worker's health (*Will Health Hobble the Economy*). Healthy citizens and workers always play a vital role in building the nation. This article has focused on preventive health care, which is the need of the hour. But it is disheartening to know that the government has ordered a cut in the health-care budget.

Prajwal Narayan, Bangalore

Send all your comments to: editor.bt@intoday.com

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Why Gautam Adani is betting \$10 billion on Australian coal.

So many issues. Environment, if he wants to sell it in India, he needs to stop local production of coal in India, that will result in corruption. To increase global coal rates, he can influence markets by illegal storage. - **Rohit Deo**

Will Ajay Singh's plan to revive SpiceJet succeed?

In developed economies, such companies are not revived but allowed to die.
- **Venkateswaran C. Venkatsubramanian**

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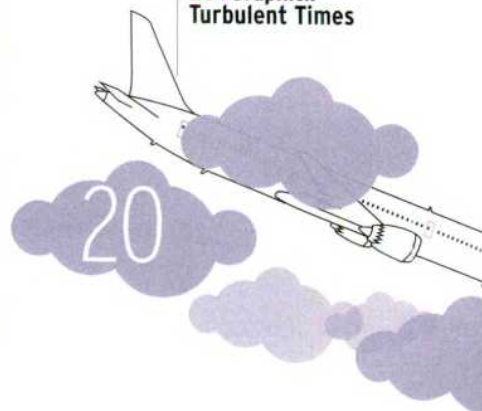
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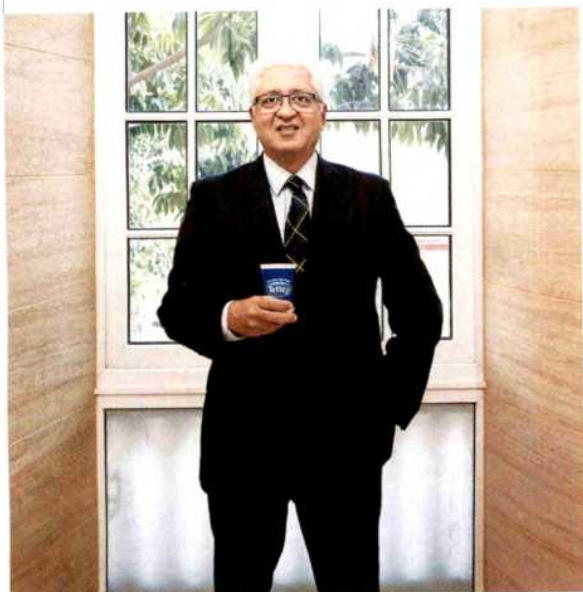
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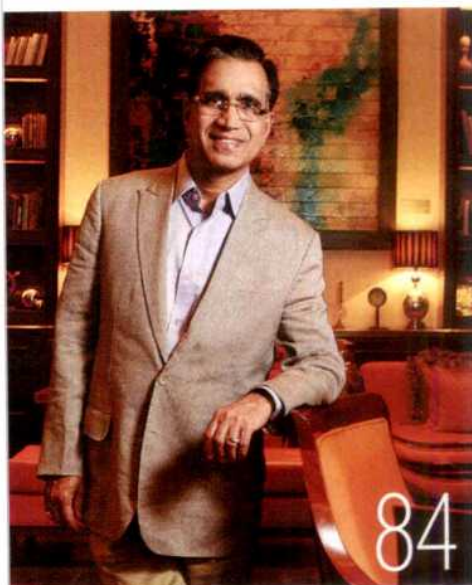
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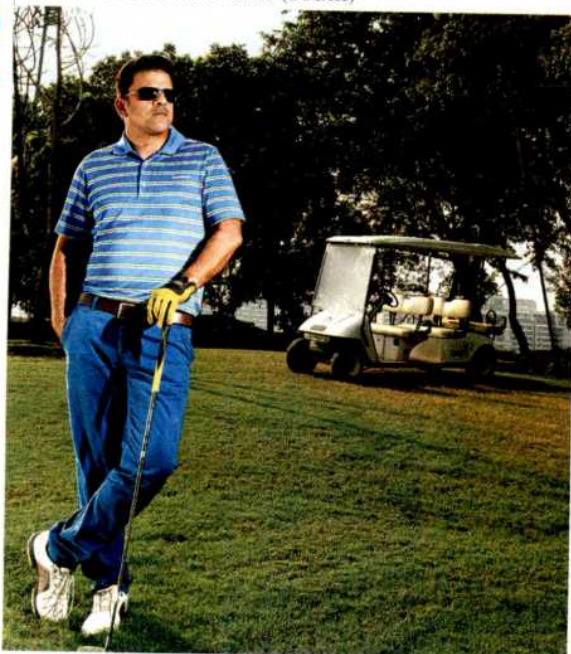
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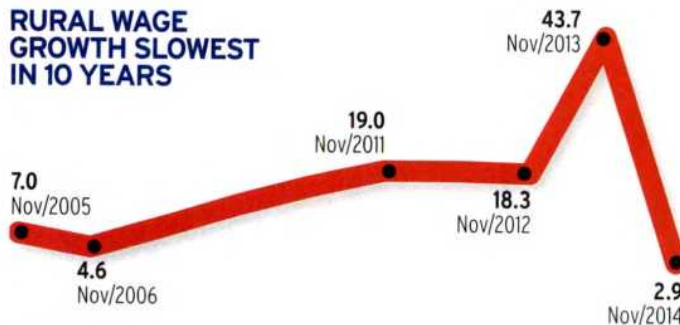


STATING THE OBVIOUS

"The banks and financial institutions should take all commercial decisions in the best interest of the organisation without any fear or favour... All decisions should be taken based on facts of the case and objectivity"

That's what the **finance ministry** said in a statement, as a follow-up to Gyan Sangam, the two-day brainstorming in Pune addressed by Prime Minister Narendra Modi. The statement is obviously welcome. But it is remarkable because somebody felt the need to state what should have been obvious.

RURAL WAGE GROWTH SLOWEST IN 10 YEARS



ALL FIGURES IN %

* Annual growth calculated for all-India average wages for men Source: RBI and Labour Bureau

Rural wages for men grew only 2.9 per cent in November 2014, according to the latest available data from the Labour Bureau posted on the Reserve Bank of India website. This is the lowest in nearly 10 years and presents a sharp contrast to the sustained high double-digit growth peaking at 43.7 per cent in November 2013. RBI Governor **Raghuram Rajan** counts rural wages as a big factor in food prices and overall inflation. This data will pile on still more pressure on him to cut rates.



CATCHING ITS BREATH

This year will be a second longer. The Paris Observatory announced it was adding a leap second to clocks this summer, says *The Telegraph* of London. On June 30, dials will read 11:59:60 as clocks stop for a second to allow the Earth's rotation to catch up with atomic time. When the last leap second was added in 2012, Mozilla, Reddit, Foursquare, Yelp, LinkedIn, and StumbleUpon reported crashes.

HOLD ON TO THE OLD

The government has opposed banning private vehicles older than 15 years, calling it a short cut to control pollution, in an affidavit in the Supreme Court, reports *The Indian Express*. The affidavit is however open to accepting 15 years as the end of life for commercial vehicles.



BURNT, BUT NOT GUTTED

"We are still reviewing the effects of the cyber attack. However, I do not see it as something that will cause a material upheaval on Sony Pictures business operations, basically, in terms of results for the current fiscal year"

Sony Corp Chief Executive **Kazuo Hirai** said at the Consumer Electronics Show in Las Vegas on January 6, as reported by Reuters. Hackers attacked Sony's network just before the scheduled release of *The Interview*, a comedy about a fictional plot to assassinate North Korean leader Kim Jong Un. Soon after, embarrassing internal emails were leaked. Sony cancelled the Christmas release of the movie but later put it out in cinemas and online after criticism, including from US President Barack Obama, that the company had bowed to hackers.



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FOCUS

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Muddle in the Middle

The government does not appear to have a well thought out approach to the 2G and 3G spectrum auctions. It may not be in the best interest of consumers, telecom companies and the government itself. By RAJEEV DUBEY

WHAT IS ON OFFER

SPECTRUM	BAND	RESERVE PRICE
103.75 MHz	800 MHz	₹3,646 _{cr}
177.8 MHz	900 MHz	₹3,980 _{cr}
99.2 MHz	1800 MHz	₹2,191 _{cr}
5 MHz	2100 MHz	₹2,720 _{cr}

UMESH GOSWAMI

There are three major objectives behind the spectrum auction scheduled for February. One, to discover the price of airwaves and maximise revenue for the government so as to reduce the fiscal deficit to the extent possible; two, to provide enough spectrum to cellular operators who have been crying hoarse over shortage of spectrum; three, to improve the worsening quality of service to the consumer.

In the long-term interest of the consumer, the sector and the government, the latter has to ensure none of them is short-changed. However, that's not the reality on the ground. Rather, it appears the government is working at cross-purposes.

First, by sticking to its stand to charge a substantially higher floor price for spectrum auctions than the bidders would have liked, the government has sent out a clear message of revenue maximisation. But at the same time, by offering just 5 MHz spectrum – instead of the 15 MHz that the defence ministry is vacating in the 2100 MHz band – it will also lose potential revenue. The move goes against the target of providing adequate spectrum to telecom companies and will surely not improve services to the consumer.

Come February, the government will go for 2G and 3G auctions (see *What Is On Offer*). The operators' argument against higher floor price does not hold water. Even at ₹4,000 crore to lock-in the spectrum for 20 years, the cost is a measly ₹200 crore a year – something most operators can easily afford for pan-India exclusivity. The floor price the government has set is way below the ₹4,000-crore mark in any case. Also, since the bid amount is to be paid over the first 12 years of the licence pe-

riod, including a two-year holiday after the upfront payment. Telecom companies are required to pay 25 per cent upfront for all bands (except for 1800 MHz where they are required to pay 33 per cent right away). Hence, around ₹25,000 crore is expected to flow into the government's kitty before 2014/15 ends. Any premium it receives over and above the floor price will proportionally get added to this kitty.

Secondly, operators and consultants alike have been demanding a lower floor price saying very high valuation will harm their debt-laden balance sheets. They have been attacking the government for what they call the

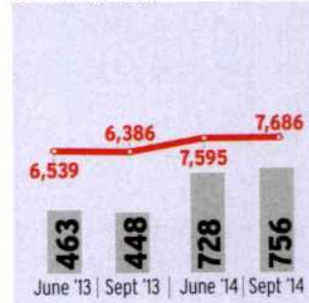
IN SOUND HEALTH

Leading telecom companies can afford to bid for spectrum

BHARTI AIRTEL



IDEA CELLULAR



RELIANCE COMMUNICATIONS



— Total income (quarterly) ■ Net profit (quarterly)

Consolidated figures in ₹ crore
Source: CMIE Prowess

government's attempt to kill the goose that laid the golden egg. The reality is to the contrary. Ever since telcos raised tariffs in the middle of 2014, their financials have been improving every quarter. Bharti Airtel reported a net profit of ₹1,170 crore in the quarter ended June and ₹1,345 crore in the quarter ended September, 2014 as against ₹869 crore and ₹502 crore in the same period a year earlier. Other major telcos Idea and Reliance Communications too have reported improved financials. Unless the Reliance Jio 4G offerings – which have been deferred year after year – are hugely disruptive on pricing to force a price war, domestic telcos will continue to re-

The 'OTT' Riddle

Internet telephony can only be provided by an Internet Service Provider or Unified Access licence holder, believes the Cellular Operators Association of India (COAI). "Companies offering OTT (Over the Top) voice services, without holding a telecom licence in India, would essentially violate and circumvent Indian telecom licencing provisions and provide services that are otherwise only permitted under a telecom licence," wrote Rajan Mathews, Director General of COAI, in a letter to the Telecom Regulatory Authority of India (TRAI). OTT refers to video, television and other services provided over the Internet.

Telecom operators are concerned that Whatsapp, which has close to 70 million users in India, would soon start offering voice-over-Internet-protocol (VoIP) calls. This would allow a Whatsapp user to make a call to another Whatsapp user for free using a WiFi or a cellular data service. Customers till now have used VoIP to talk to their relatives and friends living and travelling abroad.

The telecom operators have not bothered until now, because international calls are a very small portion of their overall revenue. Once the service is available to millions and starts getting used locally, the situation will be different. Voice revenue is the mainstay of Indian operators. "VoIP will lead to decline in voice revenue. It has already adversely

affected the SMS revenue in India," says Neha Gupta, senior analyst at research firm Gartner.

Similar problems have surfaced in the past for telecom operators in other parts of the world. The matter was resolved by imposing rules and finding solutions that are mutually beneficial to both operators and OTT players. In Germany, the regulator tracks the usage pattern of the top few communication apps and regulates them. In France, the government banned Skype and only allowed it to resume operations after the service was brought under regulation. South Korea charges a small fee for the services.

TRAI is working on a consultation paper which will address problems of both parties - the operators and the OTT players. Revenue sharing is a way of achieving this. "Thirty per cent of all OTTs around the world have some kind of revenue sharing model, but that does not exist in India. Where the revenue is shared the situation is much better," says a TRAI official on condition of anonymity.

Telecom operators will have to explore other options as well - just like they devised special packs exclusively for Whatsapp messaging and Facebook about a year ago. It not only increased the usage of these OTT services, but also helped operators grow their data revenue.

SUNNY SEN



THE INDUSTRY IS HOPING THE TRAI WILL STICK TO ITS STANCE OF PRICING THE 3G SPECTRUM IN THE 2100 MHZ AT ₹2,720 CRORE AS IT HAD RECOMMENDED EARLIER

port healthier balance sheets in the years to come. That justifies the government's decision of a higher floor price.

However, one of the biggest mysteries of the upcoming auction is the government's move to offer only 5 MHz of spectrum in the 2100 MHz band meant for 3G even though the defence ministry has agreed to vacate 15 MHz of spectrum in that band.

This has two implications: the unlikely implication is that the government's decision to reduce supply in the band will create artificial scarcity and raise bids to unviable levels. The thinking within the government was that cellcos will bid aggressively to become pan-India 3G players (they have roaming agreements amongst them right now). However, that's not likely. The likely implication is that if the bidding gets aggressive, the industry will let this opportunity pass in 2100 MHz and

wait for the remaining 10 MHz (perhaps even 15-20 additional MHz) coming their way in the next round of auctions planned some time towards the end of 2015 or early 2016.

Meanwhile, the industry is hoping against hope that the Telecom Regulatory Authority of India (TRAI) will stick to its stance of pricing the 3G spectrum in the 2100 MHz at ₹2,720 crore as it had recommended earlier. The inter-ministerial telecom commission had asked TRAI to reconsider its suggestion. Even if TRAI sticks to its previous recommendations, it's likely the DoT and the Telecom Commission will override the recommendation to propose a valuation closer to what has been suggested for the 2G bands.

Perhaps, the spectrum-related decisions could do with better cohesiveness. ♦

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**IT'S OUR
FUTURE**



NITI Aayog: The

BAKUL DHOLAKIA

POST-REFORM ERA INSTITUTION



**NITI AAYOG,
UNDER THE
DYNAMIC
LEADERSHIP OF
THE PM, ALONG
WITH ITS HIGHLY
COMPETENT
TEAM OF
PROFESSIONALS,
HAS THE
POTENTIAL TO
TRANSFORM
INDIA INTO A
FORMIDABLE
ECONOMIC
SUPERPOWER**

The creation of NITI Aayog, with a clearly focused mandate in terms of its 13 specific objectives, represents a paradigm shift in Indian government's approach to policymaking and policy implementation. [NITI is short for National Institution for Transforming India.] Its emphasis on a Bharatiya approach to overall and inclusive socio-economic development of the country and the new focus on cooperative federalism to ensure an effective involvement of states in the process of policy formulation and implementation makes NITI Aayog a unique and innovative experiment of the government towards evolving the most appropriate institutional framework to replace the Planning Commission.

It was obvious that with the large-scale liberalisation of Indian economy in the early 1990s, the Planning Commission had outlived its utility and the experience of the last decade conclusively established that it had lost its relevance and effectiveness in the post-reform era. In fact, during the last two decades, the Planning Commission focused more on process-related issues and matters pertaining to operational aspects of allocation and transfer of resources from the centre. As a result, the required focus on various aspects of formulation of socio-economic policy and the overall strategy of effective governance was entirely missing.

Moreover, the centre-state relations often reflected a one-way street, which contributed to growing discomfort and discontent among many state governments. This created an environment of lack of trust and confrontation between the centre and the states, which was not conducive to the vision of transforming India into a forward-looking progressive nation that would play a leadership role in the emerging global scenario. In this context,

there was an urgent need to create a platform that would ensure cooperation rather than confrontation between the states and the centre and in the process take a holistic and integrated view of the policy formulation and implementation process for the nation as a whole.

NITI Aayog is expected to be well-equipped to face the challenges involved in providing sound, strategic and technical advice on the socio-economic issues and strengthen the institutions of governance based on the basic principles of federal structure enunciated in our Constitution. The key to the success of this new innovative institutional structure will be the nature of multi-disciplinary team of professionals that would comprise NITI Aayog and the degree of empowerment, confidence and credibility that it enjoys with the centre and the state government.

NITI Aayog will have to adopt a bold, unconstrained and unconventional approach to deal with the mammoth task of translating Prime Minister Narendra Modi's vision of our great nation into a reality within a reasonable time-frame. It will have to find ingenious ways to resolve inherent contradictions of our systems and find innovative solutions to the differences among the states and between the centre and the states to take this country forward on a sustainable path of all-inclusive development on a substantially higher trajectory.

I firmly believe that NITI Aayog, under the dynamic leadership of the Prime Minister, along with its highly competent team of professionals, has the potential to transform India into a formidable economic superpower in the years to come. ♦

*The author is Director General,
International Management Institute,
New Delhi*

Way Forward

AMARINDER SINGH

JUST HYPE AND HYPERBOLE

This government's actions so far have been characterised more by hype than anything substantial. The replacement of the Planning Commission with the NITI Aayog establishes the government's desperate attempt to try and undo everything that has been done in the past and, of course, accompanied by a lot of hype and hyperbole. The government has not been able to spell out in detail how the NITI Aayog will be different from the Planning Commission that has successfully served the country's development purpose for 65 years. At best, it appears to be the classic case of 'old wine in a new bottle'.

Till date the only information made available by the government about the NITI Aayog is a one-page release with catchy terminology like "cooperative federalism" and "effective governance". The very nature of the Aayog defies the concept of cooperative federalism as the government itself admits that it is just a "think-tank" and its role, unlike the Planning Commission, will only be advisory, and the real power will rest with the central government and the Prime Minister [Narendra Modi], who is its Chairman. While the Planning Commission was a strong, powerful and autonomous institution, the NITI Aayog will end up to be the handmaid of the Prime Minister's Office, quite contrary to the claim that it shall be a decentralised and participative decision-making body.

It is wrong to say that the Planning Commission was a top-down decision imposing body as is claimed in the release. "The centre-to-state one-way flow of policy, that was the hallmark of the Planning Commission era, is now sought to be replaced by a genuine and continuing partnership of states," says the release in an apparently weak defence to disband the

Planning Commission. I have myself been the Chief Minister of a progressive state like Punjab for five years. I never found any difficulty in working with the Planning Commission all through my tenure, which also included two years of the NDA government at the Centre. The Planning Commission would duly discuss the annual plan with the states before its approval. It would also duly monitor the implementation of the plans and programmes to ensure the desired results. NITI Aayog is most unlikely to have such powers and authority.

The NITI Aayog is supposed to have all the CMs and lieutenant governors on its board of governors. I wonder how it is in any [new or] different from the Planning Commission, which was reporting to the National Development Council and has all the CMs and LGs as its members. Moreover, I doubt the practicability of the idea as it is difficult for all the CMs and LGs to come together so frequently, as the NITI Aayog will require them, given their respective schedules and engagements. The CMs do not sit to deliberate each others' plan allocations as the NITI Aayog expects them to do and that too without any powers.

That the government was in a hurry to scrap the Planning Commission was quite obvious when the Prime Minister announced this decision in his first Independence Day speech on August 15, 2014, when he was barely two months into the office, surely without much knowledge and experience about its (Commission's) functioning. Not much homework appears to have been done before taking such a major decision as the government is still not clear about how it will be a different body that seeks to "transform" India. ♦

The author is a senior Congress leader and former chief minister of Punjab



THE NATURE OF THE AAYOG DEFIES THE CONCEPT OF COOPERATIVE FEDERALISM AS THE GOVERNMENT ITSELF ADMITS THAT IT WILL ONLY BE ADVISORY, AND THE REAL POWER WILL BE VESTED WITH THE CENTRE

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TURBULENT TIMES

The aviation sector in India has destroyed more value than any other industry in recent times. Many airlines have shut down while several are in the red. Undeterred, new airlines such as AirAsia and Vistara have joined the crowded air space. *BT* decodes the Black Box.

Graphic by: Anand Sinha
Research by: Jyotindra Dubey and Niti Kiran

1. BIG NUMBERS

₹72,740 cr

Combined debt on the books of six airlines in operation
(as on March 2013)

₹30,231 cr

Government's bailout package for Air India from 2012 to 2021

₹10,198 cr

Combined losses of Indian carriers in 2013/14

₹2,560 cr

FDI inflows in the aviation sector from 2000 till 2014

₹2,220 cr

Erosion in market value in the last five years for SpiceJet, Kingfisher and Jet Airways

2. LOSSES

Except IndiGo and GoAir, all other carriers posted losses last year

	2013/14	2012/13	2011/12
 Air India	5,389	5,490	7,560
 Go Airlines (India)	5.5	104	134
 Interglobe Aviation (IndiGo)	317	787	128
 Jet Airways (India)*	4,129	780	1,420
 Kingfisher Airlines	NA	4,301	2,328
 SpiceJet	1,003	191	606

3. GROUNDED

Kingfisher's spectacular failure may have hogged the headlines, but in the past two decades many airlines stopped flying or got sold due mainly to financial troubles



4. DIPPING TRAFFIC

After growing 12% in 2011/12, passenger traffic fell **8% and 5%** in the next two years, respectively, adding to the airlines' woes



5. COSTS GO UP

Meanwhile, airport charges have been rising

DELHI

346%

Increase effective from May 15, 2012

MUMBAI

164%

Increase effective from Feb 1, 2013

KOLKATA

385%

Increase effective from April 1, 2013

CHENNAI

269%

Increase effective from April 1, 2013

BANGALORE

145%

Increase effective from April 2015



6. RAY OF HOPE

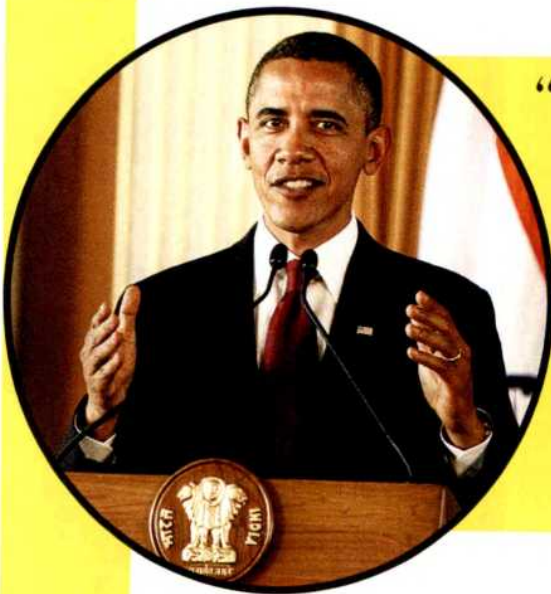
The only GOOD NEWS has been the drop in the price of aviation turbine fuel in recent months. Given that it constitutes 40 per cent of the operational cost of an airline, it has come as a ray of hope for many loss-making carriers



FOCUS On Record

"It was a time when your forefathers did what was necessary. Today, times have changed, and opportunities await for you here in India. The world is now looking with great expectations at India"

Narendra Modi, Prime Minister, at the opening of the 13th Pravasi Bharatiya Divas, in Mint



"Now that we've got some calmer waters, if we all pitch in, then we can make sure that this rising tide is actually lifting all the boats, not just some"

Barack Obama, US President, on his country's economic revival, to PTI

"IN THE SHORT RUN, IT [GREECE'S EXIT FROM THE EURO ZONE] WOULD BE LEHMAN BROTHERS SQUARED"

Barry Eichengreen, an economic historian at the University of California at Berkeley, to MarketWatch

"The bulls have been caught on the wrong foot after a very, very long time and there will be further unwinding..."

Ambareesh Baliqa, market analyst, after the Sensex crashed almost 900 points, in The Economic Times



"The bottom for the oil price is a mirage. It's more important, just as it was during the crash to \$30 a barrel five years ago, to recognise the slump is irrational exuberance and prices will recover"

Eugen Weinberg, Head, Commodities Research, Commerzbank AG in Frankfurt, to Bloomberg

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DRIVE THE CHANGE



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"Inheritors make better CEOs than professional executives"



NUPUR BANSAL
PGDM (2013-15), SPJIMR, MUMBAI

AGREE

"Inheritor CEOs have greater sense of ownership and accountability"

The most coveted job is also the least understood. As management guru Peter Drucker said: "A CEO is the link between the Inside, that is 'the organisation', and the Outside – society, the economy, technology, markets, and customers." Hence, CEOs should not be sales champions or operations officers or finance wizards, and cannot be confined to the "executive" role. They have to be all, and more. Their overarching role condemns focus on any one function and any selfish desires of 'personal growth'. A professional tends to wear several hats to further his or her career, but maintains a soft corner for the one job he/she enjoys the most and is the best at.

Inheritors are not recruited. They are born members. This isn't a question of entitlement. Inheritor CEOs' sense of ownership and accountability goes beyond any job description. Business, to them, is tribal knowledge passed on from fathers and forefathers. International expansion plans is a debate akin to overseas education for kids, while a union strike upsets all members like a family feud.

Anand Mahindra, Adi Godrej, Rahul Bajaj, among others, defy conventional wisdom that bode them to be wasteful.

They enjoy greater stakeholder trust and higher non-monetary rewards. Their name on the wall is not just an identity for the company. It's their legacy. Even the most tenured professionals, who climb up through the ranks, would find it difficult to compete with this.



V.S. VAIDYANATHAN
PGP (2013-2015), IIM AHMEDABAD

DISAGREE

"Inheritor's desire to prove himself can be at the expense of business"

While it could be argued that all else being equal, inheritors are better CEOs than professionals, the fact is that all else is simply not equal. Inheritors of family businesses face unique challenges, making it tougher for them to succeed as CEOs. A competent CEO needs to identify the changing landscape of the industry, the competitive dynamics within the changing industry and the internal values and processes to succeed in this external environment. When these values drift farther away from the family's values, an inheritor CEO will find the going tough.

According to a 2012 *HBR* article, the biggest trap that family businesses fall into is assuring its members they have a place in the business irrespective of competence.

This has three negative impacts. First, it allows incompetent family members to be a part of the business.

Second, it creates an implicit pressure on the next generation to join the business and assume leadership irrespective of interest. Third, it degrades employee morale.

Even competent inheritor CEOs have to battle against comparisons with the last generation, the inability to sever business-impeding relationships and principal-agent problems. Management hubris, reckless business expansion and denial of risk – three reasons why Jim Collins says businesses fail – can each be driven by the inheritor's desire to prove himself, often at his business's expense. Take Kingfisher's Vijay Mallya, for instance.

The debate continues online. Management students, do log on to www.businesstoday.in/bschooldebate and record your views as well, to make this an intellectually stimulating endeavour. The most well-thought-out comment wins a year's subscription to *Business Today*.



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HARD BARGAINING AHEAD

THE US WILL MOUNT PRESSURE ON INDIA THIS YEAR TO MODIFY ITS INTELLECTUAL PROPERTY RIGHTS REGIME. BUT INDIA MUST HOLD ITS GROUND. BY E. KUMAR SHARMA



On December 12 last year, the US Trade Representative (USTR) issued a statement on a review of India's intellectual property rights (IPR) system. The review's unstated objective was to put pressure on India to modify its IPR laws to address the concerns of US companies.

An unfavourable report from America's chief trade negotiator would have meant Indian companies losing some trade benefits in the US. The statement, however, gave India some breathing space. But only just. And Indian companies, particularly drugmakers, could feel the heat in

2015 if the country buckles under US pressure.

The USTR keeps India on a list of countries it says present the "most significant concerns" regarding weak IPR laws. While last year's review was delayed because of general elections in India, this year's review will begin as scheduled in February with a report due in April. Three more developments this year will decide the course of India's IPR regime – Indo-US talks starting mid-January to iron out IPR-related differences, India's new IPR policy (see *The Policy Conundrum*), and the US International Trade Commission's (USITC) report in September on trade and investment barriers in India.

The Indo-US talks in January, to be held just days before President Barack Obama visits India to attend the Republic Day celebrations, are part of a work plan on IPR agreed upon by both nations in November. The January meeting will be the first of six rounds of technical-level discussions by experts from different departments that US and India will hold by October, says a top official at the Department of Industrial Policy and Promotion (DIPP). The meetings will broadly cover areas such as copyright, traditional medicine, trademarks, patents and access to health care, he adds.

India's IPR regime, particularly the patent law, has been a sticking point in bilateral ties with the US for quite some time. But a few developments in recent years have prompted a section of US drugmakers to intensify pressure on the US government to make India change its patent law. In March 2012, for instance, India's patent office allowed Hyderabad-based Natco Pharma to make a generic version of German pharmaceutical company Bayer's cancer drug Nexavar. Bayer lost its appeal in the Supreme Court in December last year. Previously, in April 2013, the Supreme Court denied a patent to Swiss multinational Novartis for its cancer drug Glivec. Novartis holds a patent for the drug in many countries including the US. Pfizer, another US drug giant, is also involved in patent-related disputes in India.

Of course, patent disputes in the pharmaceutical industry is not the only area of concern being raised by the US. Other areas such as copyright violations in publishing and cinema as well as software piracy also figure in the discussions. But the flashpoint has clearly been pharmaceuticals and it's the drugmakers and their lobby group Pharmaceutical Research and Manufacturers of America (PhRMA) which have made some of the strongest representations to the US government against India's IPR regime. The industry body claims that India's IPR laws do not comply with the World Trade Organization's agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS). But India asserts that it is TRIPS-compliant, and the Indian Pharmaceutical Alliance stated this in its submissions to the USTR and the USITC last year. Had it not been the case, the US would have approached the WTO's dispute settlement body instead of engaging bilaterally with the implicit threat of withdrawing trade benefits.

Broadly, US drugmakers have three major problems with India's patent law – Section 3(d) and Section 84 of the Indian Patents Act, and absence of a period of exclusive marketing rights when a new drug gets regulatory approval. Under Section 3(d), new forms of existing medicines can't be patented unless they improve therapeutic efficacy. It was under this provision that India rejected a patent for Glivec. Section 84 allows issuing a compulsory licence to meet the reasonable requirements of the public at a reasonably affordable price. A compulsory license can also be granted under Section 92 of the Act in case of a

THE POLICY CONUNDRUM

The government has set up two expert panels since July to prepare an IPR policy. The three-member first panel submitted its report in October. Soon after, the DIPP set up a six-member think tank to draft the policy. Shannad Basheer, a member of the first panel and former professor of IP law at the West Bengal National University of Juridical Sciences, says the government neither offered any feedback on the panel's recommendations nor clarify the panel's status. He says the panel felt that India's IP laws are robust and do not need tinkering and that the policy should give adequate weightage to public interest while granting IPRs.

The think tank's draft says India has "robust IP laws" but it also talks of a need to review IP-related rules for better enforcement. "There is no question of substantive laws being changed in India but we should be open to reform within the IP system," says Prathiba M. Singh, a member of the think tank and a senior advocate. The draft suggests setting up patent benches in high courts and aims to increase patent filings in India many-fold in next five years. Today, less than 50,000 patent applications are filed every year in India.

The draft's suggestion on utility models has raised a few eyebrows. "India has a large number of inventions that may not satisfy the criteria of patentability but are novel, utilitarian and inventive in their own spheres. Such petty patents or 'utility models' is a form of IP which has been successfully applied in many countries but is not available in India," it says. Critics say the utility model will not work in the pharmaceutical industry because drug innovations are generally not small-company innovations and because the potential for abuse is very high. Utility models, it is argued, tend to work more in areas such as farm equipment and machinery parts where the technology cycle is short. In fact, this is not a new suggestion. The DIPP had invited comments in 2011 on a discussion paper on utility models. A non-profit group, in its response, had said the model could have "serious repercussions by creating monopolies that hamper development".

So why did the think tank make this suggestion? And does it not, in a way, dilute Section 3(d) of the Indian Patents Act? There are no clear answers and it remains to be seen if this suggestion is accepted and with what safeguards.

national emergency. Natco Pharma got a compulsory licence, the first ever in India, for generic Nexavar under Section 84. Multinational drugmakers say the Section 84 narrows the criteria for patentability and undermines incentives for innovation.

India argues Section 84 aims to ensure that a larger section of its 1.2 billion population gets affordable health care, a view that has found support from the World Health Organization. According to an April 2013 article in US medical journal *Blood*, the price of branded Glivec was \$92,000 per patient per year in the US. In India, the

drug was being sold for around ₹14 lakh per patient a year. In comparison, Natco Pharma sold the generic Veenat at ₹1.2 lakh per patient a year. After the Drug Price Control Order 2013, they are both under price control and sell for around ₹1 lakh per patient a year. Supporters of India's IPR laws also point out to a report of a commission set up by the British medical journal *The Lancet* and the University of Oslo. "The overarching message of the Commission on Global Governance for Health is that grave health inequity is morally unacceptable, and ensuring that transnational activity does not hinder people from attaining their full health potential is a global political responsibility," says the February 2014 report.

Not surprisingly, Indian drug-



Y.K. HAMIED/ CHAIRMAN/ CIPLA

been instituted". Even within the US, a section of media and civil-society groups suggest it is perhaps time for the US to review its patent law. On April 8, 2013, a few days after Novartis lost the patent battle for Glivec in India, *The Boston Globe* in an editorial found the Supreme Court right in being sceptical of the so-called "evergreening" of the patent, a practice of tweaking an existing drug to prolong the innovator company's hold on a patent. The editorial also argued it was time for the US to tighten its rules for patenting changes to drugs.

A clearer picture on India's IPR regime will emerge by the end of the year. The first indication of the way ahead will come after the USTR comes out with its report in April. The USITC report in September could indicate the im-

"WE ARE PARTY TO THE WTO. IF ANY COUNTRY HAS AN ISSUE [WITH INDIA'S IPR LAWS], THEN THEY SHOULD RAISE IT AT THE WTO... WE CAN HAVE BILATERAL TALKS WITH ANY COUNTRY ON TRADE BUT NOT ON IPR LAWS"

makers aren't happy with the government's talks with the US on the IPR regime. While India has been negotiating IPR as part of trade agreements with other countries and blocs such as the European Union, direct technical-level discussions centred on the IPR policy are being held only with the US. Y.K. Hamied, Chairman of Cipla, one of India's largest drugmakers, questions the need for a bilateral dialogue with the US. He says India complies with WTO regulations and the multilateral trade group has not objected to India's patent laws. "We are party to the WTO. If any country has an issue [with India's IPR laws] then they should raise it at the WTO," he says. "Why do we need to change anything? We can have bilateral talks with any country on trade but not on IPR laws."

Global drugmakers have another worry – the likely contagion effects of India's stand on IPR. For instance, Section 22 of the Intellectual Property Code of the Philippines is similar to Section 3(d) of the Indian Patents Act. The lobby group PhRMA has admitted as much. In a submission to the USITC, the group said some of its members were experiencing "the effects of India's anti-innovation policies in other countries where similar policies have

part of the Indo-US discussions on IPR. In its earlier report, released on December 22 last year, the USITC said investments from the US into India would have been higher had it not been for investment restrictions, lax IPR laws, regulatory uncertainty and other policy barriers. It said that companies providing farm products, financial services, and manufacturing products including pharmaceuticals were the most affected. It also pointed out that about 28 per cent of IP-intensive US pharmaceutical companies active in India indicated that IP protection was inadequate.

On the other hand, many companies including the aircraft maker Boeing and the drug giant Abbott felt that India offered adequate IP protection and that they had not experienced major IP problems in the country. This is something India will need to showcase when it negotiates with the US. Which side will prevail in the Indo-US negotiations will be clear in a few months. But India has its task cut out. The world's largest supplier of low-cost generic drugs needs to hold its ground because its IPR policies affect billions of people across the globe. ♦

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Keeping the Faith

Business sentiment improved for the fifth quarter running despite little evidence of better times in the offing, reveals the *Business Today-C fore Business Confidence Survey*. By MANU KAUSHIK

The year 2013 was tough for the Indian economy. Policy paralysis, slowing GDP growth, high interest rates, rising inflation, plunging rupee and mounting current account deficit – the macroeconomic outlook was grim. In 2014, there wasn't a drastic change in ground realities, but the formation of a stable central government buoyed business sentiment. And the hopes of an economic revival from the seven-month-old Narendra Modi government is showing no signs of waning.

The *Business Today-C fore Business Confidence Survey* for the third quarter of 2014/15 found that business sentiment among corporate leaders has continued to improve. On a scale of 100, the business confidence index (BCI) was at 62.2 in the October-to-December period, up from 60.5 in the previous quarter. It is the fifth consecutive improvement in BCI and its third-highest value since the launch of the survey in the January-to-March quarter of 2011. Market research agency *C fore* quizzed 500 CEOs and chief financial officers across 12 cities for the survey.

The survey reveals a dichotomy in the opinion of business leaders when it comes to macro and micro indicators. Even though the BCI has moved up, some of the key parameters that make up the index have hardly shown

improvement – in cases they have deteriorated. For example, consider the respondents' response to the "overall economic situation". In the October-to-December survey, only 24 per cent respondents expect the economic situation to improve in the next quarter (January-to-March). The comparable figure for the July-to-September period was 48 per cent.

Similarly, there is decline in the percentage of respondents who are optimistic about the overall business situation, availability of finance, production levels, sales pickup and order books. Sales pickup, for instance, has witnessed a sharp drop – just 19 per cent expect sales to rev up in the latest survey compared with 68 per cent respondents in July-to-September quarter. D.K. Joshi, Chief Economist at ratings agency CRISIL, says that the difference between macro and micro indicators is a result of the way businesses perceive the overall environment. "The broad index number reflects the sentiments beyond just one quarter, whereas the micro picture will still take time to improve. It will require decisive actions from the government for several quarters," he says. The corporates are yet to see some action on the ground," says Ajay Seth, CFO, Maruti Suzuki India. "The investments have not picked up yet because there's a time lag between a





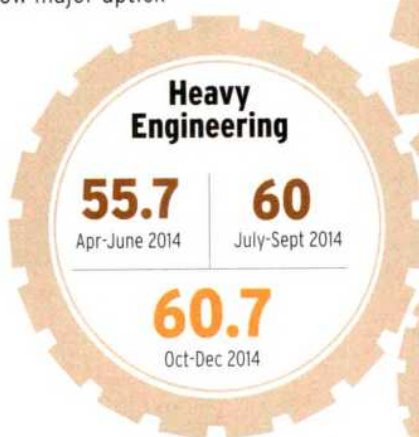
CLIMBING HIGHER

The Business Confidence index is at its third-highest level



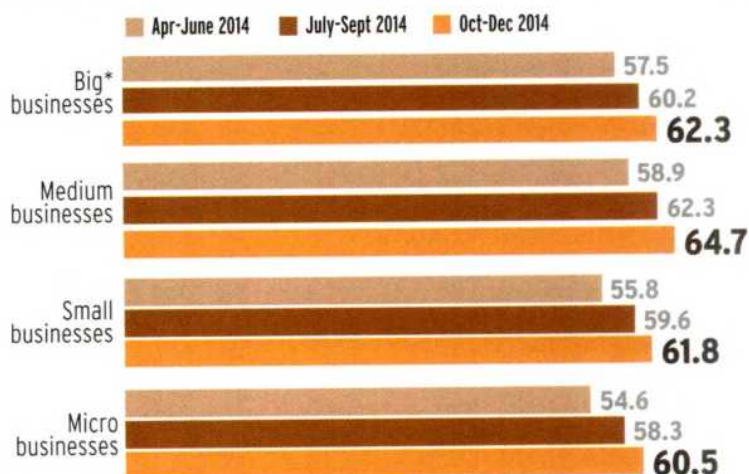
BCI BY SECTOR

Services and light industry show major uptick



BCI BY SIZE

Businesses of all sizes have registered improvement in confidence levels



Business Confidence Index on a scale of 100

*Big businesses: Turnover > ₹500 crore
Small businesses: Turnover ₹5-100 crore

Medium businesses: Turnover ₹100-500 crore
Micro businesses: Turnover < ₹5 crore

stable government and policies getting implemented to jump-start the economy," he says.

The government has certainly moved the needle on several fronts. For example, bringing ordinances in critical areas such as coal, mining, insurance and land acquisition not only boosts the confidence levels of the industry but also shows the government's commitment to reforms. Also, steps have been taken to remove bureaucratic hurdles related to environment and labour.

Interestingly, the survey shows that 67 per cent of the respondents expect fresh investments by the private sector to gain traction in 2015. It is in sharp contrast to the last survey results when two-thirds said that they plan to keep investments on hold in the next quarter.

Clearly, both infrastructure and manufacturing require fresh investments without which an economic revival may remain a pipe dream. But there are issues plaguing both the sectors. Manufacturing is facing low capacity utilisation for the past few quarters. In the quarter ending September – according to the Reserve Bank of India (RBI) survey of 1,288 companies – the capacity utilisation stood at 71 per cent, a marginal increase from 69.4 per cent in the fiscal first quarter. Infrastructure, on the other hand, has been hit by a double whammy of stalled projects, estimated to be worth ₹18 trillion, and companies burdened with huge debt. "New investment in manufacturing sector will take time due to unutilised capacity. In infrastructure, the first step will be to de-bottleneck projects which are stuck-up. It seems that the [GDP] growth has bottomed out which is driving the sentiments up," says Sonal Varma, India economist, Nomura Financial Advisory and Securities.

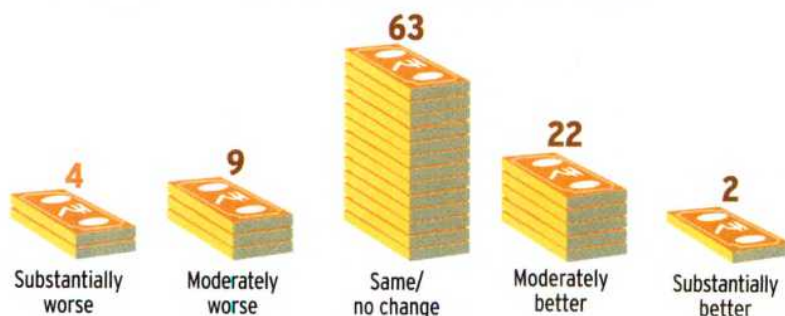
Last month, the mid-year economic review highlighted the need to increase public spending in order to boost economic growth in the medium term as there are no signs of private investment picking up.

HOLDING STEADY

A majority felt the October-to-December period was more or less the same as the previous quarter

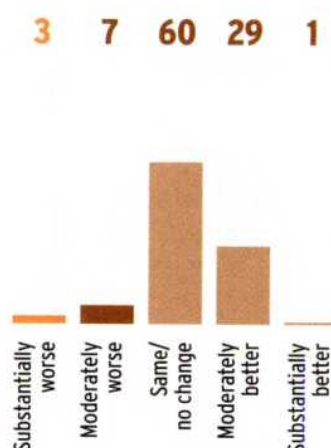
1. OVERALL ECONOMIC CONDITIONS

Close to two-thirds said the situation remained unchanged



2. AVAILABILITY OF FINANCE

More than a quarter noticed improvement



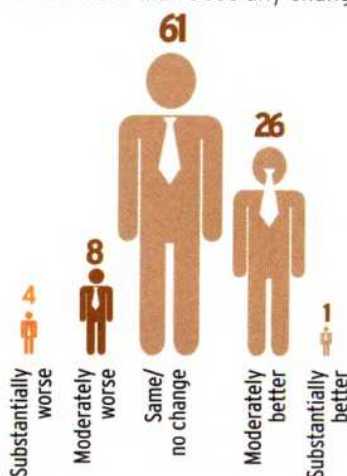
3. DEMAND CONDITIONS

Few felt conditions worsened



4. HIRING SITUATION

Three-fifths didn't see any change



5. PROFIT MARGINS

Almost three-fourths felt margins remained stable



Figures indicate percentage of respondents

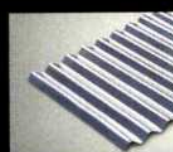
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"Investments have not picked up yet because there's a time lag between a stable government and policies getting implemented to jump-start the economy"

AJAY SETH, CFO,
Maruti Suzuki India

Various industry bodies have also approached Finance Minister Arun Jaitley and asked him to step up public spending, especially in infrastructure. Public spending is a double-edged sword. It spurs the economy but has a cost. The current fiscal position of the government looks extremely tight. Between April to November, fiscal deficit – difference between government revenues and expenditure – reached 99 per cent of the full-year target of ₹5.31 trillion, leaving not enough room for spending. Despite the odds, over 40 per cent of the respondents believe that the government will meet its deficit targets while 32 per cent are sceptical.

Anticipating a shortfall in revenues, the government has chalked out elaborate disinvestment plans in several public sector entities – CIL, ONGC, NHPC, and most recently, in PFC and REC. So far, the government has been able to mop up some ₹1,715 crore from SAIL disinvestment. It has set a disinvestment target of ₹58,425 crore for 2014/15. The 2G spectrum sale is on the cards as well. The government expects to mop up over ₹64,000 crore from it.

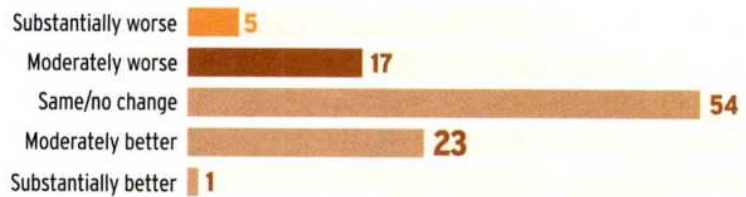
In the survey, 43 per cent of the respondents expect cost of external

GOOD PROSPECTS

Respondents are more hopeful about macro indicators than micro ones in January-March

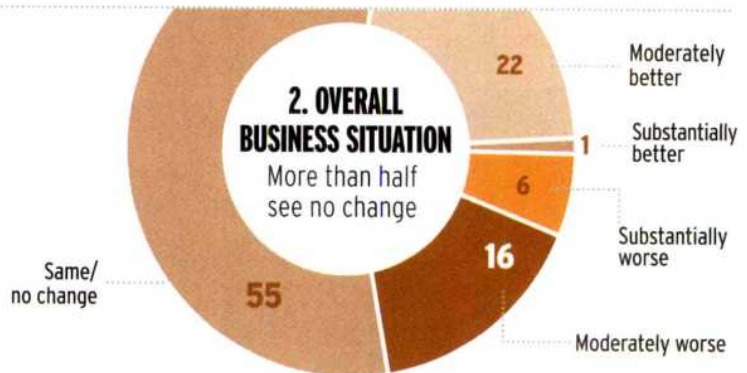
1. OVERALL ECONOMIC SITUATION

Three-fourths feel the situation will either remain steady or improve



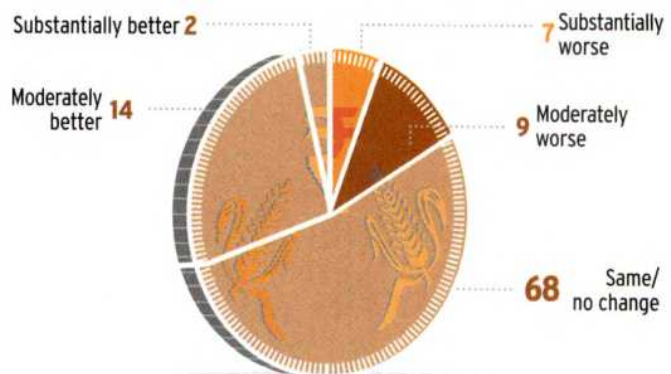
2. OVERALL BUSINESS SITUATION

More than half see no change



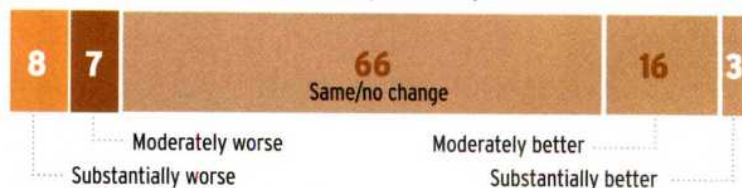
3. AVAILABILITY OF FINANCE

More than two-thirds forecast a stable outlook



4. PRODUCTION LEVEL

Few expect output to drop



Figures indicate percentage of respondents

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finance to rise in the current quarter. In the previous survey, the figure was 20 per cent. The RBI's tough monetary stance over the past several months have kept interest rates high. However, with inflation softening, the clamour for rate cuts have grown manifold. Maruti's Seth says the cost of finance varies from one company to another due to a bunch of reasons, including health of balance sheet and credit ratings. "Companies with low ratings or highly leveraged balance sheets will find it difficult to tap low-cost funds," he says.

Meanwhile, one-fifth (19 per cent) of the respondents expects cost of raw materials to drop. Kishore Biyani, Group CEO, Future Group, says that the continuous fall in (raw material) prices creates uncertainty for manufacturers. "At one level, businesses are feeling positive but things are not shaping up the way they should. Commodity prices are falling but manufacturers don't know what to do. They are not able to buy raw material because prices are going down almost every day. We need a stable environment," he says.

The survey highlights that nearly one-third (32 per cent) respondents expects their requirement of working capital to go up in the current quarter. Working capital requirement typically rises when order book gets a boost or payments get delayed. Anil Bhardwaj, secretary general of Federation of Indian Micro and Small & Medium Enterprises, says that the second scenario looks more likely. "Look at gems and jewellery, the slowdown in international demand is affecting the sector adversely. The slump in auto and realty sectors has led to inventory pile-up and payment delays," he says.

Meanwhile, next month holds the key for businesses as two major policy events – Jaitley's first full Budget and RBI's monetary policy – are expected to set the economic agenda for the country over the next year. ♦

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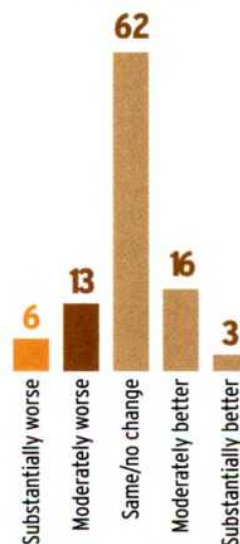
5. ORDER BOOK/DEMAND

A majority expects little change



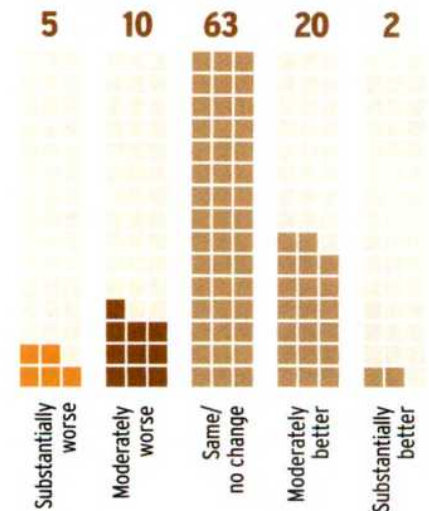
8. SALES PICKUP

Almost a fifth expects improvement



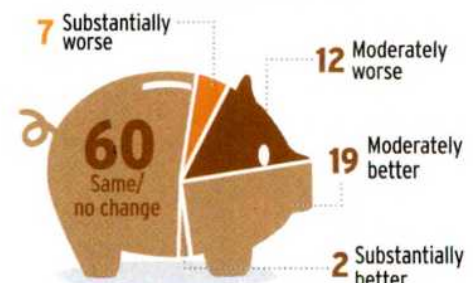
6. UTILISATION OF PRODUCTION CAPACITY

Almost two-thirds predict the situation will remain stable



7. INVESTMENT IN BUSINESS

Four-fifths feel the situation to remain the same or improve



9. EXPORTS PICKUP

More than half forecast no change



Figures indicate percentage of respondents

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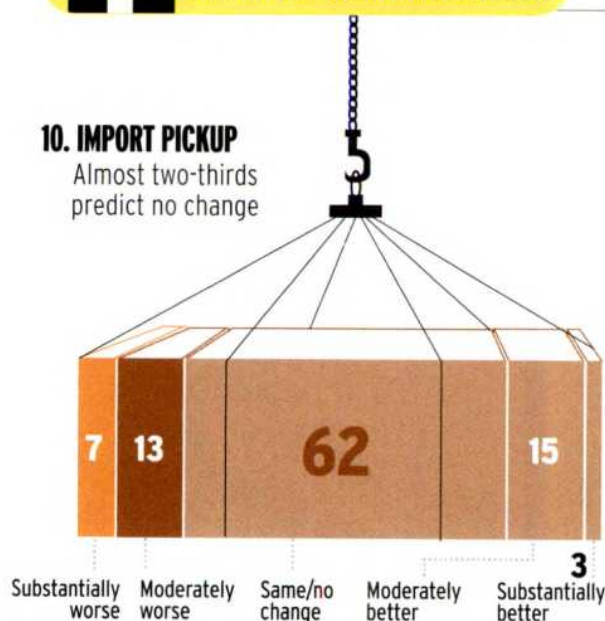
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Business Confidence Index

10. IMPORT PICKUP

Almost two-thirds predict no change



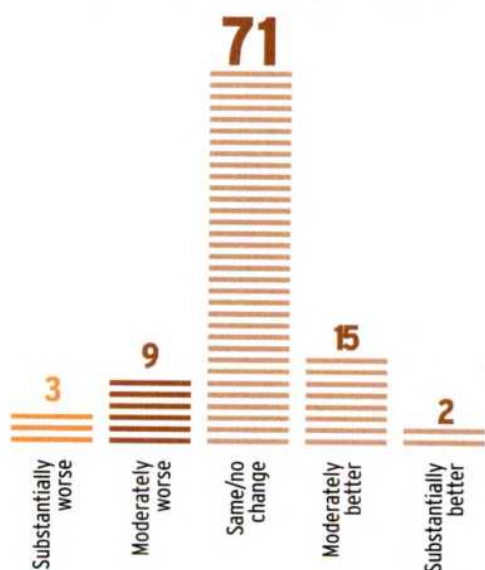
11. HIRING PICKUP

Only a fifth expect conditions to worsen



12. PROFIT PICKUP

Almost three-fourths see profits stable



Substantially worse

2

Moderately worse

8

Same/no change

55

Moderately better

28

Substantially better

7

13. STOCK PRICE PICKUP

Few respondents are bearish

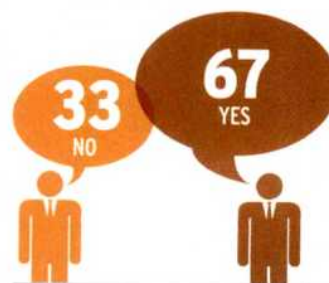
14. BUDGET

Will Arun Jaitley's first full-year budget help maintain the fiscal deficit target?



15. INVESTMENT

Do you expect fresh investments by the private sector in 2015?



Figures indicate percentage of respondents

METHODOLOGY

Market research agency C fore conducted the survey. The field work was conducted between December 23 and 31, 2014. A structured questionnaire was administered to CEOs or CFOs of companies. In all 500 CEOs or CFOs representing various industries in terms of sector and size were interviewed. The survey was carried in 12 cities – Delhi, Mumbai, Chennai, Hyderabad, Bangalore, Kolkata, Chandigarh, Lucknow, Nagpur, Kochi, Vizag and Bhubaneswar. The companies were segmented based on their turnover and also the products offered by them. Those with turnover of over ₹500 crore have been termed as big, those between ₹100 crore to ₹500 crore as medium, those with a turnover less than ₹100 crore as small and those less than ₹5 crore as Micro businesses.



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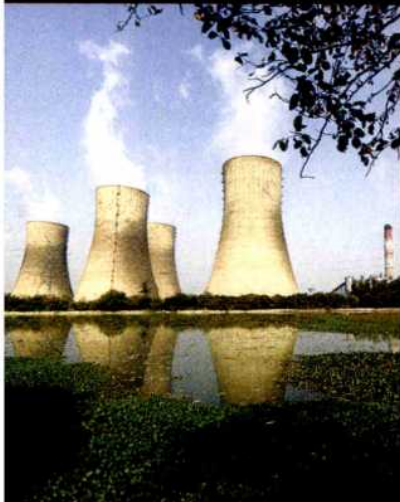


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COVER STORY Power



NTPC

Arup Roy Choudhury, CMD

Current capacity
43,128 MW

Under implementation
22,000 MW

Acquisition plans
5,000 MW

Expected capacity in 2-3 years
70,128 MW



TATA POWER

Cyrus Mistry, Chairman

Current capacity
8,623 MW

Under implementation
4,870 MW

Acquisition plans
2,000 MW

Expected capacity in 2-3 years
15,490 MW



JSW ENERGY

Sajjan Jindal, Chairman

Current capacity
3,140 MW

Under implementation
8,630

Acquisition plans
3,000 MW

Expected capacity in 2-3 years
15,770 MW





RELIANCE POWER

Anil Ambani, Chairman

Current capacity
5,285 MW

Under implementation*
20,000 MW

Acquisition plans
2,000 MW

Expected capacity in 2-3 years
9,000 MW

*14,000 MW is in limbo due to fuel issues



SWITCHING BACK TO POWER

After spending years in a coma, the power sector has risen to embrace a life of multi-million-dollar deals. Who will be the last men standing?

By ANILESH S. MAHAJAN

ADANI POWER

Gautam Adani, Chairman

Current capacity
9,280 MW

Under implementation

Planning a plant each in
Chhindwara and Bhadeshwar

Acquisition plans
3,000 MW

Expected capacity in 2-3 years
12,280 MW*

*Adani Power plans to acquire 20,000 MW

A

Arup Roy Choudhury may be in the last leg of his tenure as the Chairman and Managing Director of NTPC – he is retiring in 2016 – but he has suddenly been presented with the opportunity to leave a lasting imprint on India's largest power producer.

For, he is the power producer sitting on the biggest pile of cash – ₹10,000 crore to be precise – at a time when distressed developers of power projects are queuing up to sell their plants. Choudhury expects to seal several deals and add more than 5,000 MW through acquisitions before he retires.

And he isn't the only one looking to pick up operating power plants. Tata Power's Anil Sardana, Adani Power's Vineet Jain, JSW Power's Sanjay Sagar, and Reliance Power's Anil Ambani are also on the prowl for assets that distressed sellers are trying to shed.

In the second half of the year gone by, these players have collectively signed deals to acquire 3,600 MW of power capacity, spending over ₹23,000 crore to pick up these plants. Power deals account for roughly 11 per cent of the total \$38-billion deals announced in this period.

TRACKING TAKEOVERS

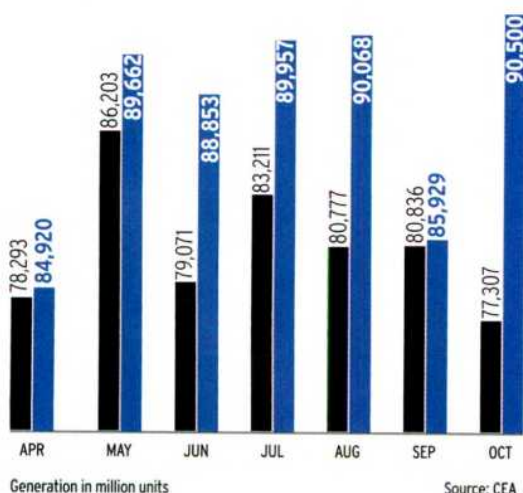
Who bought what from whom since August 2014



INCREASING DEMAND

Monthly power generation rose in 2014

■ Monthly power generation in 2013
 ■ Monthly power generation in 2014



a buyer's market out there. There are too many sellers, trying to hawk power plants they had built by taking on debt when the economy was doing fine. Now most of them are being prodded by their lenders to reduce debt, and they are desperately looking for buyers who will take some power plants off their hands. The last time NTPC put out a request for offer for any power plants with even partial fuel linkages, 31 power companies offered to sell 55,000 MW of capacity.

"We are doing due-diligence of seven power plants, and may end up buying two or three of them," says Choudhury. The plants with fuel linkages, he says, "...would allow a quick turnaround for the investments. Normally, a greenfield project takes four to five years to start commercial operations and bringing in returns. We expect these new purchases would allow quicker RoI [return on investment]."

In the past 10 years, as banks flush with funds looked to lend and power was seen as a great new growth area for infrastructure firms, a host of new players entered the sector. Nearly 50 new players jumped into the fray announcing roughly 500,000 MW of power projects by 2020. This is more than five times the capacity of private players currently. At an average debt-to-equity ratio of 3.1 times, it meant an additional ₹4-5 lakh crore flowed into the sector. That was thanks to the excitement generated by the government's Ultra Mega Power Project plans.

Over the years, however, a tsunami of troubles hit the sector. First, land acquisition often delayed the projects, ballooning the project cost. Second, coal and other fuel supplies fell far short of projections and their linkages became even rare. For years, it seemed the sector was in a coma. Although India was adding roughly 20,000 MW annually, slow decision-making on coal and gas "messed" up the entire sector and many over-leveraged players found themselves in trouble.

As payback tenure increased, of late, panicky lenders began piling on pressure on borrowers to either complete their projects fast or exit them and pay off debts. As a result, the industry is overflowing with distressed assets available to anybody who is willing to put cash on the table. In the deal bazaar, the power sector is divided into two segments: sellers with weak balance sheets and those with cash or the balance sheet with enough leverage to make acquisitions.

In March last year, industry lobby group ASSOCHAM along with PwC India said in a report that stressed assets among state-run banks reached an alarming 112 per cent of equity. It also said that loans totaling ₹6 lakh crore were stressed by the end of 2013 and that the power sector accounted for nearly a fifth of this amount. Troubled power companies went on the block once banks began pushing them to reduce debt. Banks had the support of the Reserve Bank of India (RBI). "It is wrong to expect the banks to take the haircut, the promoters should take the risk," RBI Governor Raghuram Rajan said in a recent TV interview.

These factors pushed the sector towards consolidation. "I was always of the opinion, eventually, there would not be more than four to five players with strong balance sheets in the power generation sector," says Deepak Amitabh, CEO of power trading firm PTC India.



DEEPAK AMITABH
CEO/ PTC India

VIVAN MEHRA

Where It All Began

Consolidation kicked off in August when Gautam Adani-led Adani Power agreed to acquire the Udipi plant from Madhusudan Rao's Lanco Infrastructure (recent reports suggest the deal is getting delayed because the lenders are driving a tough bargain.)

Lanco Group is saddled with debts of roughly ₹36,000 crore and had restructured its loans in December 2013. The group has a portfolio of more than 18,000 MW projects under operation and various stages of development, and is looking to sell most of this. "The pressure from the lenders is evident here," a banker says.

In February 2014, Lanco agreed to sell three hydel projects with total capacity of 80 MW in Himachal Pradesh. Investment bankers working with the company suggest another three plants are on the block. These projects are the 1,320 MW plant in Babandh, Odisha, 1,200 MW Anpara power plant in Uttar Pradesh and a 732 MW gas-based plant at Kondapalli in Andhra Pradesh. Adani, Reliance Power and JSW are among the potential acquirers who have shown interest in taking over these assets.

In November, Adani Power announced it

"I was always of the opinion, eventually, there would not be more than four to five players with strong balance sheets in the power generation sector"

will acquire a power plant from Gautam Thapar's Avantha Group. The same month, JSW Energy agreed to buy two hydroelectric projects from the Gaur-family promoted Jaiprakash Power Venture. The transaction is expected to complete by April. Sajjan Jindal-owned JSW has total capacity of about 11,700 MW under operation and

various stages of construction. Sanjay Sagar, CEO of JSW Energy, told *Business Today* the group is evaluating projects to acquire roughly 3,000 MW thermal capacity.

Incidentally, debt-laden Gaurs had previously made two other attempts to sell the plants. Just before JSW negotiations began, Gaurs were in talks with the Anil Ambani-led Reliance Power but the deal did not go through. In a parting statement, Reliance Power officials blamed the prevailing regulatory uncertainties and tariff issues for the deal's collapse. However, Gaurs refuted these claims. Reliance Power was keen to buy all three hydroelectric units, including the one yet not operational at Vishnuprayag in Uttarakhand. Here too, Adani was keen to invest, but consensus was not reached on the valuation. Prior to this, Gaurs negotiated for the same assets with a separate consortium led by the UAE's Taqa and IDFC Alternatives. Bankers tracking the sector say the entire power portfolio of Jaypee is on the block. But in a conver-

MONEY WOES

Even the buyers have high debt and limited cash in hand

	CASH AND BANK BALANCE	DEBT	DEBT TO EQUITY RATIO	INTEREST COVER
Adani Power*	941	44,150	6.98	0.72
JSW Energy*	567	10,106	1.53	1.89
NTPC^	17,051	81,506	0.93	2.94
Reliance Power^	2,829	30,050	1.54	2.84
Tata Power^	1,555	40,309	2.57	1.19

Interest cover (times): The lower the ratio, the more the company is burdened by debt expense

Debt-to-equity ratio (times): The higher the ratio, the more the debt burden on companies

*Figures as of March 2014; ^Figures for March 2013; Source: CMIE Prowess

sation with BT. Manoj Gaur, CEO of parent company Jaiprakash Associates, says they may not sell the entire portfolio and may come back in this sector.

The year ended with Tata Power announcing its intent to buy a power plant from D.P. Mhaikar-led Ideal Energy. For Tata Power, which is undergoing restructuring, this purchase made a lot of sense. Ideal was on the lookout for buyers for three years, after it started facing a coal shortage. The first phase of 270 MW was commissioned and the second phase of the same capacity is delayed because of issues related to coal supplies. Tata Power officials say there is distinct advantage in buying plants like these. "The project draws coal from Coal India, and in

Life at the Next Bend

But why are some companies willing to spend thousands of crores when they are fully aware of the state of affairs in India's power sector? For instance, despite several attempts, India is still to resolve the financial mess the last-mile distributors such as the state electricity boards continue to be in. Distribution companies are unable to align power tariffs with fuel costs as any such decision remains a political hot potato. This will continue to inhibit power producers in raising tariffs for distributors.

Second, even though Coal India has made ambitious projections about coal supplies to power plants in the future, its past record does not inspire any confidence in its

INADEQUATE IMPROVEMENT

Transmission and distribution losses have been declining but still remain high



times when captive mines are cancelled and importing coal makes projects vulnerable, these projects become more lucrative," says a Tata Power official. For the quarter ended September, Tata Power reported a loss of ₹32 crore.

Meanwhile, Rajiv Rattan, Chairman of RattanIndia Power, rechristened his erstwhile company Indiabulls Power by taking over the entire stake from co-promoters Sameer Gehlaut and Saurabh Mittal in Indiabulls Infrastructure and Power, the holding company of Indiabulls Power. The market buzz is that NTPC and Adani are keen to buy his 1,350 MW Amaravati plant. "I am not that keen to sell it. We have built this power plant conservatively. Several decisions while erecting this plant were against the tide, but stood the test of time," he says. "We chose to install BHEL machinery when the buzzword was to bring equipment from China. We went for PPA (power purchase agreement) mode when most companies were going for merchant power. It is time for us to reap the benefits."

ability to match those targets. Goyal says the entire government is working as a team to ensure Coal India meets the production target of 1 billion tonne by 2019. "Our targets are clear: double coal production by 2019 and double generation of electricity in next two to three years," he says.

Third, while these power projects are changing hands, it's not going to make any difference either to their own financials or the financials of the buyers. Acquirers may even have to pay higher interest on loans today than what the sellers paid at the time these projects were conceived five to six years ago when interest rates were lower.

It appears that most acquirers are buying these plants in the hope the government will deliver on all the promises it has been making. These include the commitment of adequate fuel supplies and improving the fiscal health of distribution firms. The buyers are also betting on an improvement in India's economic growth, which would lead to higher demand for power in the industrial sector. More

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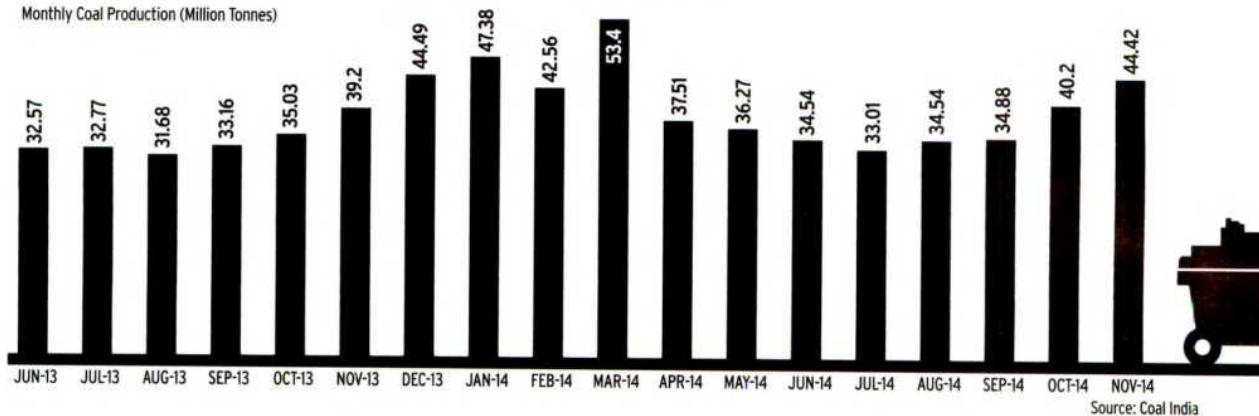
*To save tax upto ₹ 46,350, taxable income of less than ₹ 1 crore is required and ₹ 1.5 lakhs investment has to be made under the ELSS scheme. This is as per SEC 80C of the Income Tax Act 1961 for FY 2014-15 and includes applicable cess. Tax saving will be proportionately reduced subject to the taxable income and investments. Investment in ELSS schemes is subject to lock in period of 3 years from the date of allotment of units. The tax benefits are as per the current income tax laws and rules and any other current applicable law. Investors are advised to consult their tax advisor before investing in such schemes.

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RUNNING ON EMPTY

Coal output has risen in the past few months but has failed to meet demand

Monthly Coal Production (Million Tonnes)



importantly, they hope to give heft to their balance sheets with these assets so that they can leverage the consolidated balance sheet more substantially. Perhaps, at more affordable rates of interest.

Sagar of JSW says he is betting on faster GDP growth. For the Make in India campaign to happen, manufactur-

ing to happen, India would require more electricity. India's per capita consumption of electricity is roughly 950 kWh. This is miniscule if we compare it with the US (13,500 kWh) and China (3,290 kWh). Besides, even today, 300 million Indians don't have access to power.

"Today the aspiration amongst consumers is high. They want good quality power 24x7. The states have

started looking for reforms, and those who will not adapt will be left behind," Choudhury of NTPC says. But things can go wrong.

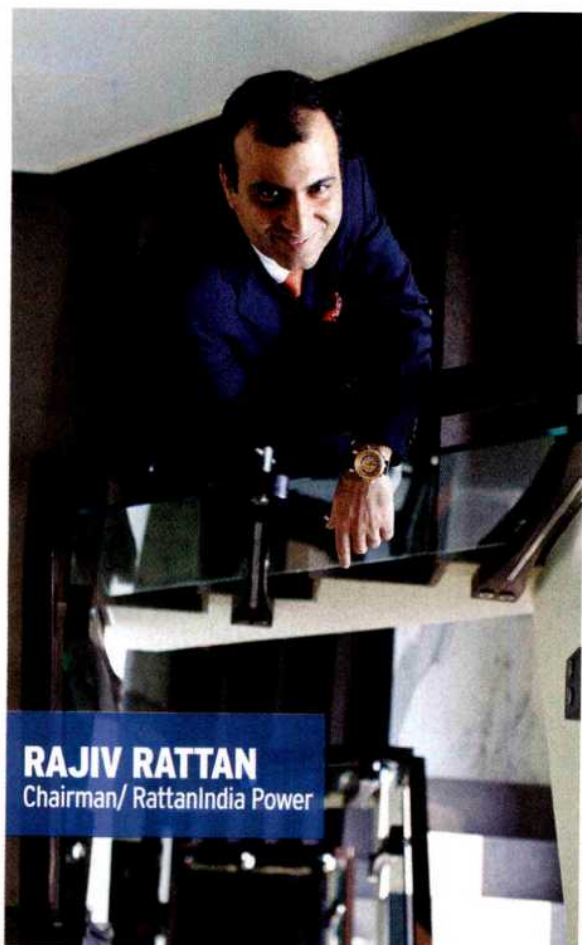
Two things are critical to 24x7 electricity: power producers' ability to charge market rates for tariff and distribution companies' ability to pass it on to consumers. Both of them are difficult to achieve. "The states would also have

"We have built this power plant conservatively. Several decisions while erecting this plant were against the tide, but stood the test of time"

to think at the same frequency as the Union government is working. Else, it can derail the process," says the CEO of a private distribution company.

Electricity regulators in 22 of 29 states have issued tariff orders – correcting the price of power – for 2014/15 so far. The tariff orders for distribution utilities in Rajasthan and Tamil Nadu are delayed – both these states opted for financial restructuring in 2012. This is a deviation from the pre-conditions of the restructuring. But there is a silver lining in Madhya Pradesh's case. In 2009, the state was facing a shortage of 15 per cent and battling up to 14-hour power cuts. In 2014, the state met all its demand. And its electricity regulator projects the state distribution companies will start making profits in 2017.

Madhya Pradesh's transformation was enabled by its



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Chairman/ RattanIndia Power

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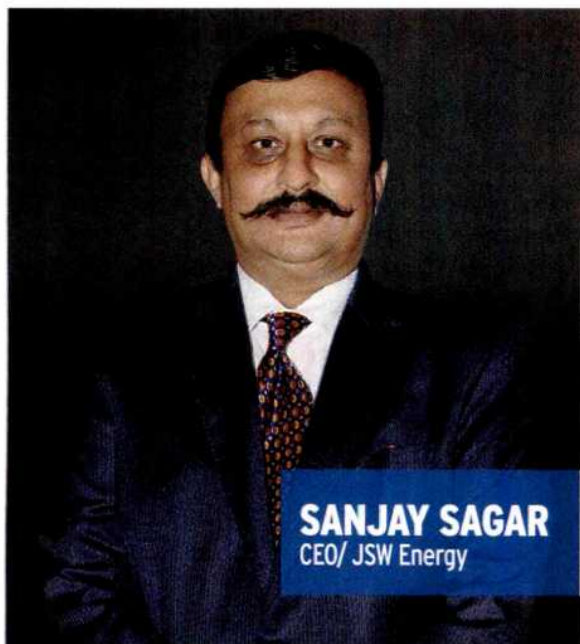


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decision to change inefficient transmission equipment and, like Gujarat, segregate the subsidised farm load from the main feeder under the Atal Gram Jyoti Yojna. In 2010, the state assembly resolved to reduce transmission and distribution (T&D) losses from 37 per cent to less than nine per cent by the end of 2013/14. "The state government instead of taking help of the Union government (then UPA-2) did the financial restructuring itself," Chief Minister Shivraj Singh Chouhan told *BT*.

Officials say the state government provided support to the tune of ₹2,306 crore to distribution companies. "This would help the distribution utilities in achieving a faster turnaround," an official said. This is one of the biggest turnaround stories in the distribution sector outside Gujarat. Union Power Minister Piyush Goyal has already agreed with Delhi, Rajasthan and Andhra Pradesh governments to resolve their issues, and is working with seven more states to usher in distribution reforms.

The power ministry is also pushing other states to segregate the agriculture load, under the Deen Dayal

Gram Jyoti Yojna, and reduce T&D losses. Power supply to the farms is highly subsidised, and is not required round the clock. Also, in many states there are several cases of leakages as well. The segregation has helped states like Gujarat and Madhya Pradesh, among others, to meter these supplies and provide more power to higher paying customers like industries and households.

Fuel Supply Tangle

Power producers also run the risk of a fuel shortage. Goyal, who also heads the coal ministry, is devoting most

"[We are] evaluating projects to acquire roughly 3,000 MW thermal capacity... [I am] betting on faster GDP growth"

of his time in pushing India's largest coal miner Coal India (CIL) to improve supplies. "If you have a company with consolidated assets, the rationalisation would help in ensuring better supplies of coal," says A.K. Khurana, Director General of the industry group Association of Power Producers.

Coal India will have to increase production from 463 million

tonnes in 2013/14 to the targeted one billion tonnes by 2017. Goyal is throwing his weight behind putting the first lot of coal mines on e-auction. Many of these mines were among the 204 mines for which the Supreme Court cancelled licences in September. Goyal is also putting pressure on Coal India to increase output from existing mines. A former CIL chairman says new equipment and technology is being introduced in mining to boost production. "Plus, efforts are being made to increase surveillance and vigilance on 'coal mafia'," he says.

Moreover, coal mining was stuck after the environment ministry under Jairam Ramesh declared various mines under no-go areas – dense forest areas where non-forest activities were not allowed. The biggest problem,

IN DEEP TROUBLE

Coal-based capacity of 33,000 MW is stranded

REASON: Either because of no Power Purchase Agreement or no Fuel Supply Agreement

Gas-based capacity of 16,000 MW is stranded

REASON: Production of cheaper domestic gas has fallen and imports are costlier

Projects of 28,000 MW capacity are on the edge

REASON: The Supreme Court cancelled 204 captive coal mines in September

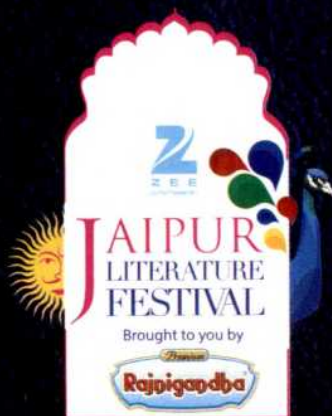


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says the former CIL chairman, was contradiction between coal and power ministries. "There was no synergy between officials," he says.

Many would now agree that with the appointment of the banker-turned-politician Goyal as minister for both power and coal, the Narendra Modi government has tried to resolve this problem. NTPC's Choudhury says, "I always thought that it was very difficult to look for an owner in a PSU. But not now. Today, we can sense there is an owner – the government – we can look up to."

J.P. Chalasani, ex-CEO of Reliance Power and now CEO of Punj Lloyd group, agrees. "We know that the challenge is

portable working with each other, says a senior BJP leader. They can pick up the phone and easily talk to each other and resolve issues.

"Our targets are clear: double coal production by 2019 and double generation of electricity in next two to three years"

Prabhu's appointment was particularly interesting. Prior to his appointment as railway minister, he was heading an advisory panel of the power ministry. His two major recommendations – swapping of coal linkage and installation of three vital rail links – can unlock roughly 300 million tonnes coal by 2017. Now it's up to him to walk the talk. The railway lines have been delayed by a decade due to one reason or the other.

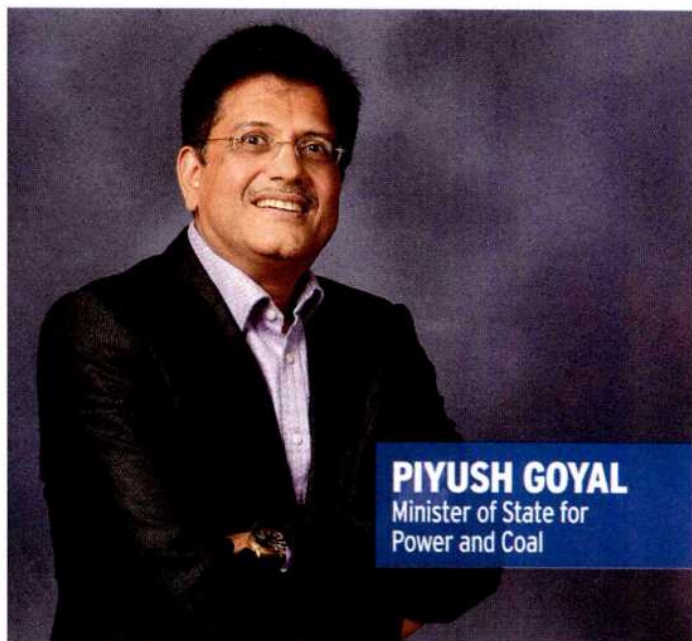
Javadekar, who initially was shying away from environment ministry, made favourable amendments in the

guidelines for environment and forest clearances. These include provisions such as exemption of compensatory afforestation requirement for projects in states with more than 33 per cent forest cover (instead of 50 per cent earlier) of total geographical area, and decentralisation of the process of granting forest clearance to regionally empowered committees in case of projects such as transmission lines.

Sinha, meanwhile, is trying to work out taxation issues related to gas pooling, which may eventually help 23 gigawatt of stranded capacity to operate. Dharmendra Pradhan-led petroleum ministry had earlier worked out the formula of gas pricing and fixed it at \$5.61 per million metric British thermal units, which might increase the cost of power generation by 17 per cent.

Kalpana Morparia, India head of J.P. Morgan, says the scenario is improving. "Players are able to raise money from the market. The companies are also able to sell assets in order to reduce the leverage," she says. Amit Kapoor, Partner at law firm JSA, believes that expectations are building up among investors. "They [the government] are taking decisions faster. The RBI's moves are positive. Globally, commodity and fuel prices are down. Demand is increasing. All these factors are making developments positive for investors," says Kapoor.

Former power minister Y.K. Alagh says the government has made a positive start. "Careful and alert supervision is required, so that the institutions don't lose the momentum," he says. The ball is clearly in the government's court. If it has to keep its promises to the people, the government will have to wade through the regulatory rigmarole and make it a win-win situation for both the power sector players as well as itself. Its failure to do so would sound the death knell for the ambitious investments. ♦



PIYUSH GOYAL
Minister of State for
Power and Coal

VIKRAM SHARMA

majority in the fuel sector. There is focus on increasing investment in the transmission sector as well. The direction seems to be right," he says.

In the November cabinet reshuffle, there were three appointments the power sector was keenly watching. First, appointment of Suresh Prabhu as railways minister. Second, additional charge of the information and broadcasting ministry was taken from Prakash Javadekar and he was left with only the environment ministry to focus on. And third, appointment of Jayant Sinha as junior minister in the finance ministry. All these changes bode well for the power sector. All three are from Mumbai (Sinha was working in Mumbai as a partner with Omidyar Network before entering politics) and are com-

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- Exports to rise by USD 64 billion annually if India captures 20% share of low-end exports, where China is losing advantage⁵

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- Productivity improvement to boost skill intensive manufacturing in India by 2025⁴
 - One of the top 2 low cost exporters in auto components, power equipment, pharma
 - Among the top 5 low cost exporters in machinery, electronics, automobiles, textiles
- 28 million new jobs in hi-tech and electronic hardware sector to cater to USD 400 billion domestic market by 2020⁷

REFORMS IN THE SHORT TERM: RECOMMENDATIONS

Vital Reforms in Business Regulations

- Review Land Acquisition, Rehabilitation & Resettlement Act, 2013 and Companies Act, 2013 to align with industry
- Improve ease of doing business by setting up single window clearance through eBiz platform in the Centre and all States
- Clarity in FDI/FII policy across sectors with better Centre-State coordination to stimulate investments and improve business confidence

Capitalize on Domestic demand

- Reduce duty on raw materials and components vis-à-vis finished goods to strengthen domestic value addition
- Implement nationwide GST while allowing for input tax credit, and reduce MAT
- Create a vibrant labour market - reform existing 44 Central and 160-odd State labour laws
- Develop industrial corridors with regional mapping of strengths and capabilities, and investment regions (FTZs) to build manufacturing scale and competencies
- Develop domestic manufacturing base for power equipments to ensure consistent power at competitive prices

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REFORMS IN THE MEDIUM - LONG TERM: RECOMMENDATIONS

Prioritize Sectoral approach

- Help create strong brand - geographic appellation for Indian products and trustmarks & traceability in key sectors with globally competitive capabilities
- Integrate Foreign Trade Policy with 'Make in India' to promote sectors with high domestic value addition component as textiles, electrical goods
- Facilitate growth of exports in labour intensive sectors akin to capital intensive sectors for higher employment generation driven by MSMEs
- Incentivize investments in IT, Electronic hardware manufacturing with special financial packages and dedicated industrial clusters
- Increase private sector involvement in aerospace and defense value chains to reduce import dependence (currently ~70%)

Build private sector capabilities in manufacturing through public linkages

- Empower 3P India - build robust PPP framework with clear dispute resolution mechanism to encourage private sector participation in 'Make in India'
- PPP to augment skill development capacity through dual program of ITI training cum industrial apprenticeship
- Improve R&D capabilities to Design and Innovate with greater industry-academia collaboration - encourage international tie-ups for technology transfer
- Stipulate offset program in capital goods production to promote domestic vendor-supplier ecosystem



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HOME AGAIN

After a series of acquisitions in foreign lands, Tata Global Beverages is now again focusing on its growth back home. By AJITA SHASHIDHAR

It was in January 2013 that the ₹8,159-crore Tata Global Beverages (TGB) moved its base to Mumbai after being headquartered in London for five years. TGB insiders say the Chairman's (then Ratan Tata) office had been mulling over this move ever since Peter Unsworth, CEO of the company, had quit in May 2011.

Unsworth was the head of the world's second-largest tea company, Tetley, when the Tata Group acquired it in February 2000. He was largely responsible for the company's global operations. With his exit, the Chairman's office began to feel that the London base was fast becoming unviable as each of the geographies such as the US, Europe and Africa had a separate business head to oversee the op-

erations. The senior management, says an ex-TGB employee, had to travel to Mumbai every second month for the review meetings and it had become an expensive proposition. But the biggest challenge was to convince R.K. Krishna Kumar (popularly known as KK), Tata's confidant and the then Director of Tata Sons. The chief architect of the \$450-million Tetley acquisition, KK had always wanted the company to be based in London. He moved it to the UK in 2008 to make a global mark as a 'good-for-you' beverage company. It was then believed that placing the management team in London would give them a better geographical balance and perspective.

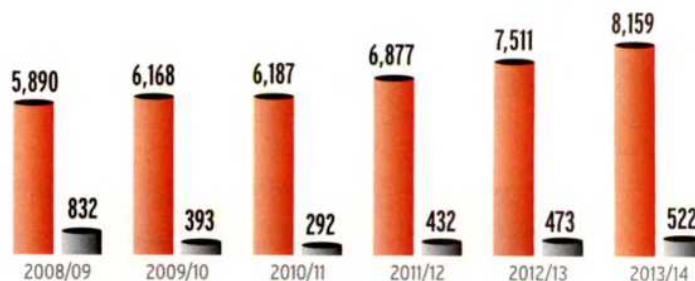
By then TGB had already acquired Good Earth Tea and Eight O'Clock

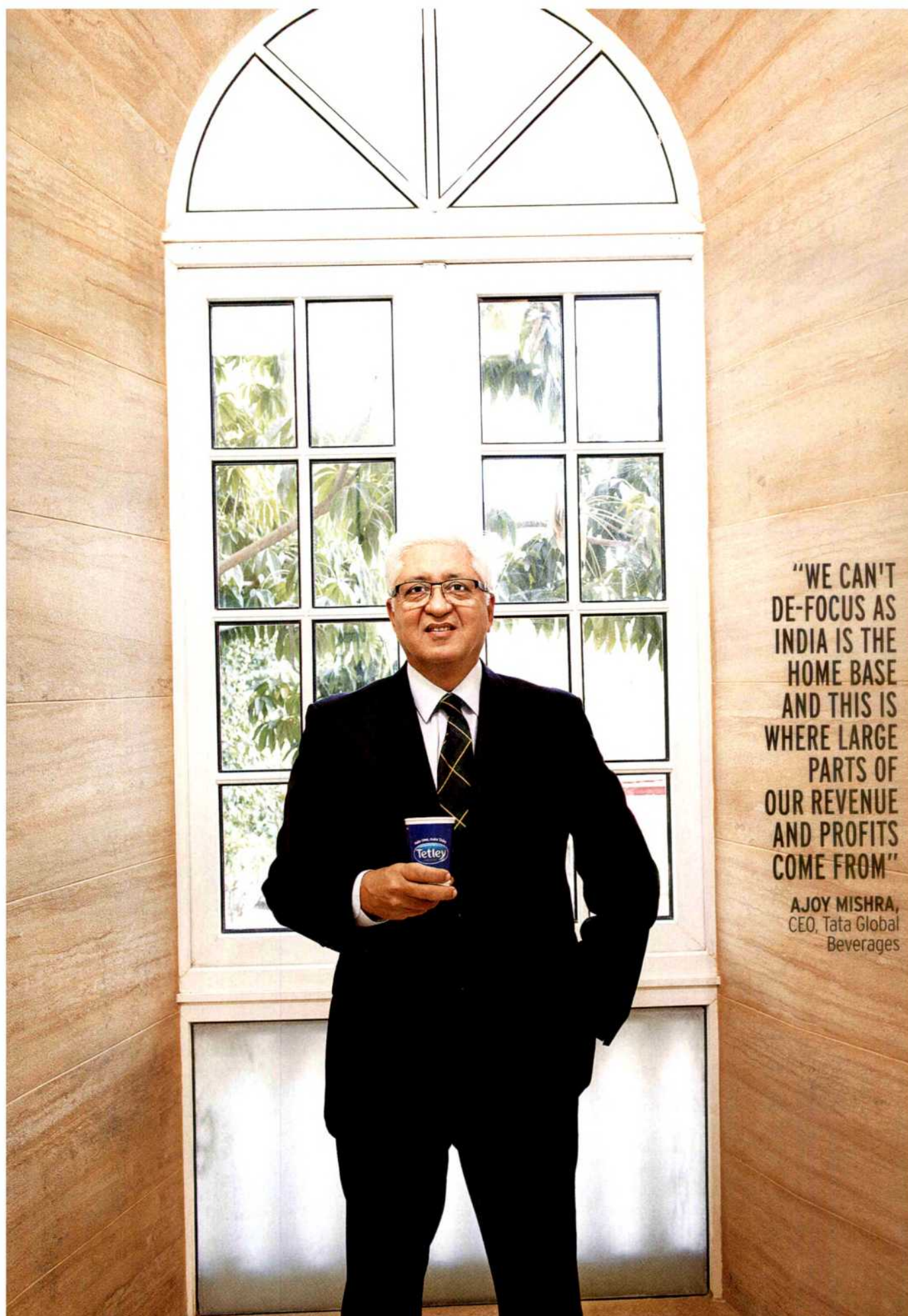
Constant Progress

TGB's financial position has strengthened in recent years

 TOTAL INCOME
 NET PROFIT

Consolidated financials; all figures in ₹ crore; Source: CMIE Prowess





**"WE CAN'T
DE-FOCUS AS
INDIA IS THE
HOME BASE
AND THIS IS
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PARTS OF
OUR REVENUE
AND PROFITS
COME FROM"**

AJOY MISHRA,
CEO, Tata Global
Beverages

Coffee in the US. It also had a 30 per cent stake in vitaminwater maker Glaceau for \$677 million, which it eventually sold to Coca-Cola for a whopping \$1.2 billion. The company had also made inroads into the tea and coffee businesses in South Africa, Russia and Poland.

Ajoy Mishra, MD and CEO of TGB, says that to be based in London was becoming less important as the Tetley acquisition had fully consummated and the action was shifting to emerging markets in Asia. On being nudged, he admits that moving back to Mumbai was also to focus better on the India market. "It was significantly driven by the fact that being a Tata group company, at some stage or other we needed to be at the Tata headquarters. But flip that question the other way round and say that now that you are operating from here do you get the sense that India could do with more focus, the answer is yes," he says.

In the last 15 years, starting from TGB's (then Tata Tea) acquisition of Tetley, it has grown from a ₹1,500-crore company to a ₹8,159-crore entity. The net profit in 2013/14 rose to ₹522 crore from ₹473 crore in the previous year. Almost 66 per cent of its revenue comes from global operations. In India, 70 per cent of its revenue is from the tea business; coffee and water businesses contribute 20 per cent and 10 per cent, respectively. In 2012, the company even dislodged Hindustan Unilever to become the leader of India's branded tea market by volume as well as value.

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AVANI DAVDA,
CEO, Tata Starbucks



India Business

Though a cursory look would make one think that everything was going well with its India tea business, the innovation that was supposed to propel the business to the next level was absent. Mishra agrees that much more needs to be done. And so after anchoring itself in Mumbai, the company announced an ambitious target of becoming a ₹30,000-crore entity by 2020 and push its India growth with focus on three verticals – tea, coffee and water.

Though Tata Coffee no longer sells any branded coffee, it is present in coffee retailing in India through its joint venture with Starbucks. One of the bestsellers in Starbucks across 15 countries in Asia, including India, is the India Estate Blend, a 100 per cent Indian Arabica blend, for which the beans are sourced from Tata's coffee plantations. Avani Saglani Davda, CEO of Tata Starbucks, says in the coming months many more blends will come from its India plantations. "We are

building a coffee culture in India. We will soon take India Estate Coffee to the US and other markets," she says. Tata Starbucks already has about 61 stores in India.

Meanwhile, Mishra is upbeat about the prospects of TGB's water business, NourishCo, the 50:50 joint venture with PepsiCo India signed in 2008. The JV markets water brand Himalayan, Tata Water Plus (vitamin fortified water) and Tata Gluco Plus (glucose forti-

ing for some innovation. At a time when marketers refresh their brands every two years, there is a five-year gap between its latest launch, Tata Tea Acti Green, its green tea offering, and its re-launch of Tata Tea Gold. The first variant of Tata Tea Gold was launched way back in 2003.

"Tea happened decades ago in India. Then some 30 years ago, came teabags. But after that nothing exciting has happened in this

a "conservative" and "risk-averse" company when it comes to India. "Apart from Titan, the Tatas, in general, have not been successful in building B2C brands. They are better performers in B2B segments like power and energy," he says. Vishwanath also points to Tata Motors, which he says, has been very successful in trucks but could not replicate it with passenger cars.

The same seems to be the reason why a large segment of the industry



Global Footprint

Tata Global Beverages has made a string of overseas acquisitions since its first buy in 2000

TARGET	COUNTRY	YEAR	PRICE
Tetley	UNITED KINGDOM	2000	\$450 million
Good Earth	UNITED STATES	2005	\$32 million
Eight O' Clock Coffee	UNITED STATES	2006	\$200 million
Jemca	CZECH REPUBLIC	2006	€12 million
Glacéau*	UNITED STATES	2006	\$677 million
Joekels	SOUTH AFRICA	2007	€0.9 million
Vitax & Rosana	POLAND	2007	€4.7 million
Grand Tea & Coffee	RUSSIA	2009	NA
Bronski Eleven	AUSTRALIA	2014	NA

*Tata Global had acquired a 30% stake in Glacéau, which it sold to Coca-Cola for \$1.2 billion in 2007

fied water). While Himalayan has a pan-India presence, the other two have been rolled out only in Tamil Nadu, Andhra Pradesh and Gujarat. Very soon it will also enter Uttar Pradesh. TGB has also launched a sparkling water variant of Himalayan. In the next two years, Mishra expects 20 per cent of TGB's India revenue to come from its water portfolio.

In the tea business, though a market leader, the category is cry-

space in India. The onus is on the market leader to create this move," says Harish Bijoor, brand specialist and CEO of Harish Bijoor Consults.

TGB is yet to introduce in India the innovative products like Chai Latte and the round tea bags that it is selling in foreign lands. It also sells steamed green tea in the US and the UK. All this is yet to come to India and that's why Raghu Vishwanath, MD of Verteband, a brand valuation company, calls TGB

has labelled the NourishCo JV as a failure. While the JV happened in 2008, the water brands are only available in three states, that too when start-ups like Hector Beverages (Paper Boat brand) and Danone Narang (Blue brand) are making huge inroads. "If TGB has the guts to acquire Tetley, what's stopping them from investing in the water business?" asks A. Mahendran, ex-MD of Godrej Consumer, who recently launched his own food company,

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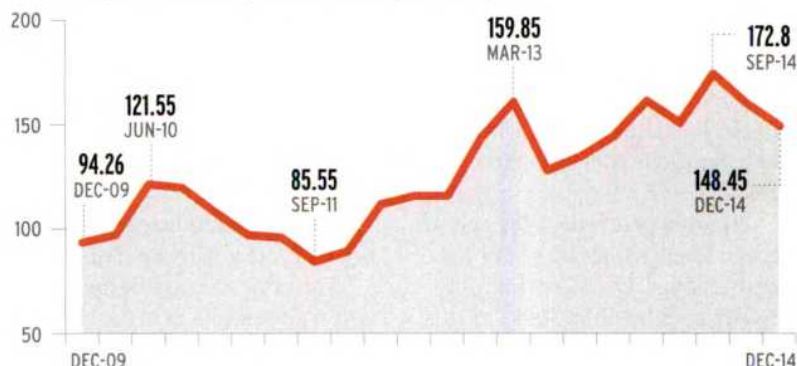
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Robust Performance

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Global Beverages & Foods.

However, Mishra and his team refuse to admit that TGB had in between taken its eyes off India. "We can't de-focus as India is the home base and this is where large parts of our revenue and profits come from," he says. In the tea business, he says, there may not have been many brand launches but the brands are constantly being refreshed. "The green tea launch is making news lately, but if you take our regional brands, Kannan Devan, Chakra Gold and Gemini, year after year we continue to invest in those markets. There are local campaigns in those markets that play up the brand."

Sushant Dash, TGB's Regional President, India, says the company does re-stage its brands almost every three years. "In the last five years, we have re-staged Tata Tea Premium and we have done product innovations. We have talked about *badi patti-chhoti patti*, which is a mix. We did a re-stage of Tata Tea Gold last year and Kannan Devan six months back in Kerala," he says. TGB, he says, even innovated to suit the tastes of the consumer at a local level when it created a blend called the Danapur blend (with bolder leaves) for the Uttar Pradesh and Bihar markets.

Harish Bhat, ex-MD of TGB and now a member of the Group

Executive Council of Tata Sons, points to consumer behaviour to justify the company's less-frequent brand launches. "You may not think twice about having a new ice cream brand or chocolates as they are impulse categories. But a cup of tea is a habit, which once you develop a palate, you want to have it time and again," he says. Mishra

₹30,000
CRORE
TGB's revenue target
for 2020

says though TGB can easily launch a fancy fruit or herbal tea, India does not have a big enough market for speciality tea. In a market where over 90 per cent of the tea is sold in polypacks, the strategy has been to increase the sale of green tea along with its black tea offerings. "So we have launched loose green tea under the Tata Tea brand. We are democratising green tea in India."

However, he admits that the water business has not grown as fast as they had wanted because of the difficulty in finding the right bottling partners. A 200-ml cup of Tata Gluco Plus is priced at ₹6 and when they sell a product at such

low price points, Mishra says, it becomes unviable to work with large bottlers. "We appoint local bottlers and distribute it but never at a radius more than a certain amount to avoid as transportation costs. The process of appointing a bottler, their certification and so on does take time," he says.

According to Ramesh Chauhan, Chairman of Bisleri, selling flavoured water or any functional water product in India is tough. "It may work in the West as they are used to consuming soft drinks along with their food as the food there is dry," says Chauhan, who eventually launched a premium energy drink called Urza.

What's Ahead?

To be a ₹30,000-crore company, TGB, says Mahendran of Global Foods, has to think out of the box or else risk being outwitted by smaller and agile players. Industry experts say the need of the hour is to invest more consciously in brands. But Mishra believes that the only business TGB is into is building brands. "There is no great differentiator between the tea that my competitors are packing and I am packing. The differentiator is the brand and that is what has made us the No.1 brand," Mishra's predecessor, Bhat, is confident about the company's future. "The one big trend that is sweeping the world is the trend of health and wellness and tea, coffee and water are ideally positioned," he says.

Of course, TGB could have grown faster in India but the company, Bhat says, believes in being slow and steady. "We have launched Tata Water Plus and Tata Gluco Plus in Tamil Nadu and Andhra Pradesh. We have launched Himalayan in many cities and we would like hit the sweet spot. Once the value proposition does its magic, we would then take it to the rest of the country," he says. ♦

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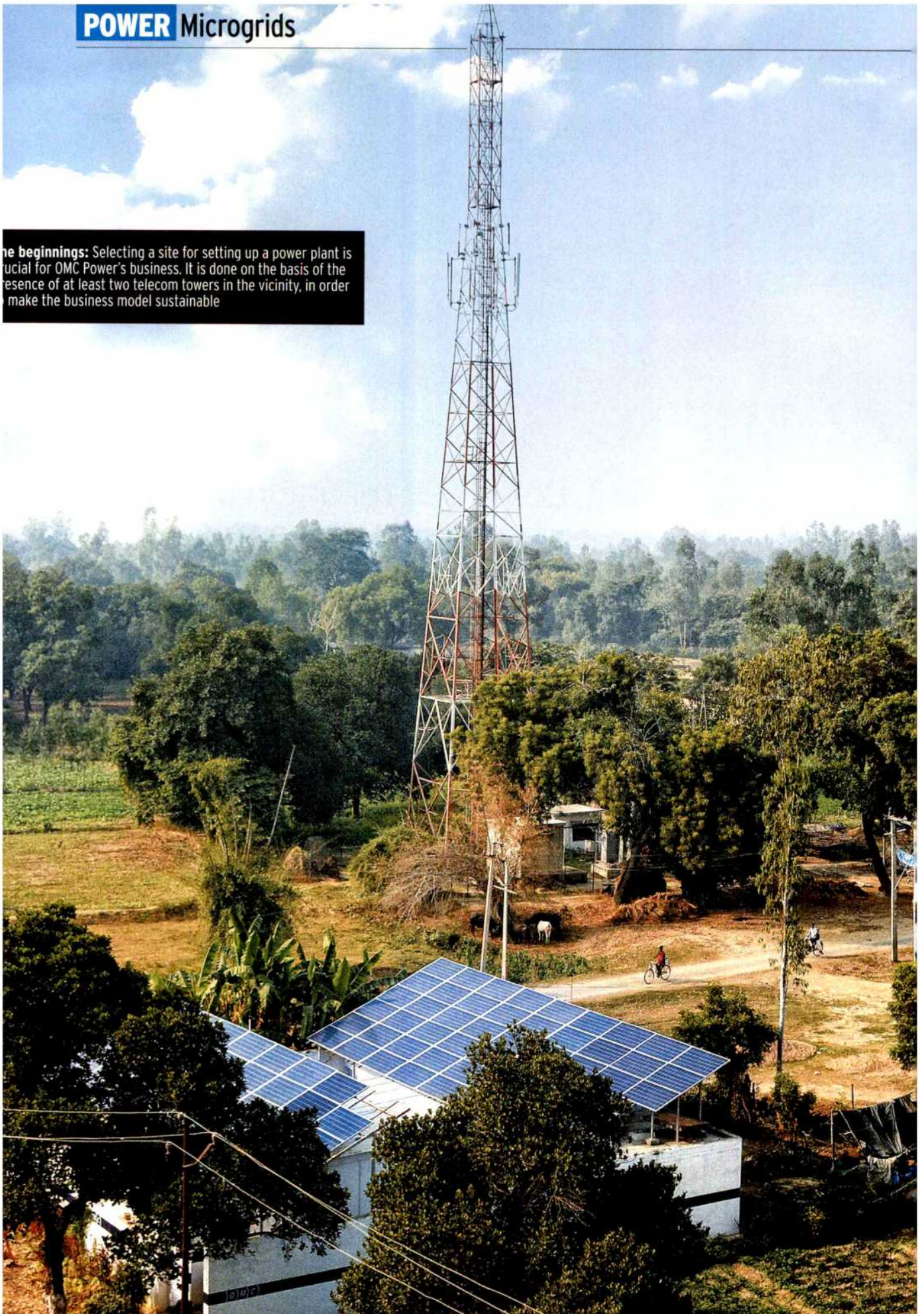
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POWER Microgrids

the beginnings: Selecting a site for setting up a power plant is crucial for OMC Power's business. It is done on the basis of the presence of at least two telecom towers in the vicinity, in order to make the business model sustainable





ALTERNATE CURRENT

PRIVATELY-RUN MICROGRIDS PROVIDE POWER TO LARGE SWATHES OF RURAL AREAS WHERE ELECTRIC SUPPLY IS ERRATIC OR NONEXISTENT. BUT THEY FACE FORMIDABLE CHALLENGES. By SARIKA MALHOTRA

Pradeep Singh, 37, owns one of the two gas stations at Attrouli village in Uttar Pradesh's Hardoi district, 65 km north of Lucknow. Barely 30 per cent of the diesel he sells goes into vehicles; the rest is bought by village residents to run diesel generator (DG) sets for both household and agricultural needs. The village gets barely four to six hours of power on average a day from the grid, with 10 hours being the maximum it has ever got. "*Yahaan bijli ka koi theek nahi hai* (power supply here is very erratic)," he says. "We usually get power after 11 p.m. for a few hours, rarely during the day."

So how does he operate his petrol and diesel pumps when there is no power? "If I didn't have power during the day I'd have to turn away most of my customers," he says. "None of them comes at night." Earlier, he too used DG sets, spending an average of ₹1,500 a day apart from their maintenance cost, but for the past year he no longer needs to. He now buys power from a private company, OMC Power, which has set up a mini power plant – called microgrid – in the village. He pays ₹9,000 to ₹10,000 per month depending on usage, with an additional amount of ₹700 to ₹800 as rent for the grid connection. This works out to ₹23.41 per unit, but is still

PHOTOGRAPHS BY KISHAN KUMAR

much cheaper than using DG sets. (In comparison, grid power, when available, costs a mere ₹6.50 per unit.)

A few blocks away in Janigaon village stands a branch of the Gramin Bank of Aryavart – a regional rural bank sponsored by Bank of India – which has not even bothered to acquire a grid connection but instead buys all its power from OMC Power. “Grid supply is never available during the bank’s working hours from 9 a.m. to 5 p.m.,” says Aryamani Mishra, the branch manager. “Why pay for installation charges and engage in laborious paperwork?”

Attrauli and Janigaon are not isolated examples. The 2011 Census showed 33 per cent of all Indian households – and 45 per cent of rural

THE SHORTFALL

PERCENTAGE OF RURAL HOUSEHOLDS WITH	ELECTRICITY
West Bengal	20.3 (2001)
Odisha	19.4
Jharkhand	10
Assam	16.5
Uttar Pradesh	19.8
Bihar	5.1

Source: Census 2011

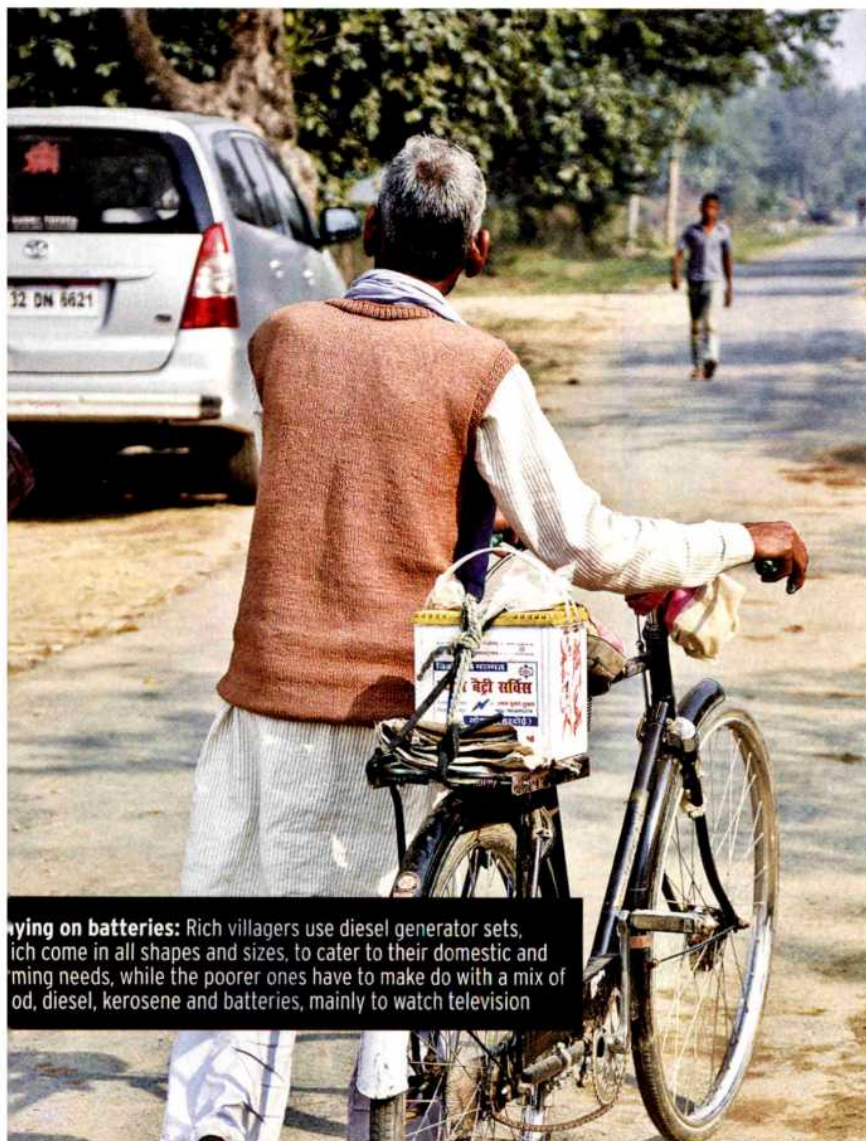
ones – do not have electricity (see *The Shortfall*). Over 22 per cent of the world’s population denied power lives in India, with 19,300 villages yet to be electrified. Even where grid power is available, supply is invariably irregular, especially in the rural areas

of Bihar, Uttar Pradesh and states further east. A host of private companies have, thus, in recent years set up microgrids – solar, wind, biomass or diesel plants, or a combination of these – to meet the shortage. The most common are solar plants or solar biomass and solar diesel hybrids.

The business opportunity is huge. A report by the World Resources Institute and the Centre for Development Finance estimates it at \$2.1 billion annually. “Even if off-grid systems have 20 per cent penetration, the installation base would be more than 7,000 MW,” says Anish De, Partner, Infrastructure and Government Services, KPMG in India. “The overall consumption from these grids would be more than 10 billion units. This will entail setting up a huge number of installations, because individual ones will be small. It is a relatively untapped market and should be attractive for new entrants.”

Numerous Challenges

Thus, OMC Power, started in 2011, has set up 20 microgrids (each costing around ₹60 lakh) in a couple of districts of UP, with capacities ranging from 36 to 50 kW. Mera Gao Power, begun in 2009, has a staggering 1,200 microgrids, in six clusters in UP’s Sitapur district, and supplies power to 16,000 households. Decentralised Energy Systems India, more commonly known as DESI Power, has six microgrids supplying power to 700 homes in five villages of Araria district in neigh-



Relying on batteries: Rich villagers use diesel generator sets, which come in all shapes and sizes, to cater to their domestic and lighting needs, while the poorer ones have to make do with a mix of solar, diesel, kerosene and batteries, mainly to watch television



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Light lights: Rural communities are charged ₹5 per day on a prepaid basis for OMC's LED lantern and ₹250 to ₹350 per month for the *bijli* box, which helps provide multiple LED lights, charge a mobile and run a fan. The lantern/box is charged at the solar plant during the day

bouring Bihar. Naturetech Infrastructure has installed 27 tiny solar plants (each costing about ₹8 lakh) across 20 villages in UP and Bihar, each producing 2 kW and servicing around 35 customers.

These and other microgrid companies have made a significant difference to the quality of life of their rural customers, but the going has not been easy. To start with, the investment on such plants is considerable, around ₹2 lakh per kW. "The cost is high because solar photovoltaic mini grids need battery backup, but power is lost when the battery is full," says Shruti Mahajan Deorah, Co-author of *Prospects for Electricity Access in Rural India using Solar Photo-Voltaic based Mini-Grid Systems*. "They have to set up poles and wires. The remoteness of the areas where the plants are located adds to logistics costs. Ensuring maintenance funds, primarily funds to replace the battery every five to seven years is also essential."

The government does provide a subsidy of 30 per cent, but many feel it is not enough. "Finance is a problem despite the subsidy," says Shailendra Nath Sharan, Director, DESI Power. "Many companies cannot offer the guarantees and securities required to get loans. There is also acute shortage of grant funds for training and capacity building of vil-

lagers." Even senior bureaucrats agree. "The government should facilitate soft loans at concessional rates," says G. Prasad, Director in the Ministry of New and Renewable Energy. "The ideal mix would be 30 per cent subsidy, 50 per cent soft loan and only 20 per cent investment by the entrepreneur." Another challenge is laying underground cables. "This requires permission from local authorities, which is difficult to obtain when the cable cuts across highways or through villages," says Rohit Chandra, Co-founder and Chief Operating Officer, OMC Power.

Heavy investment in installation naturally pushes up the price of the power supplied. Can village residents, with their limited means, afford to pay to make such plants viable? "The biggest challenge in operating microgrids is the uncertainty around tariff payment and the absence of large commercial loads in villages," says Arunabha Ghosh, CEO of the policy

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research institution, Council on Energy, Environment and Water. "There are, indeed, concerns around ensuring a steady revenue stream so as to recover capital and operational expenses, making it a risky proposition for entrepreneurs." Prasad is even more explicit. "It has been observed that after a plant is set up, the villagers start defaulting on payments," he says. "They know that once the apparatus has been set up, the money is blocked. Even if they do not pay, the plant will remain. Non payment by customers makes the project non-viable in the long run."

Microgrid companies have coped with this problem in different ways. OMC Power, for instance, chooses its microgrid locations carefully. "We ensure that there are at least two telecom towers in the vicinity which will take power from us," says Chandra. "This guarantees load off-take and enables us to supply power to the community at a reasonably low rate." So far it has been supplying power to 32 towers belonging to Reliance, Bharti Infratel and Viom Networks as well as to villages. But

At 20% PENETRATION OF OFF-GRID SYSTEMS, THE INSTALLATION BASE WOULD BE MORE THAN 7,000 MW, ACCORDING TO KPMG ESTIMATES

while the towers and any business establishments in the locality are linked by cable and provided continuous power, the villagers get it only in prepaid packages. They are given LED lanterns or power boxes (called *bijli* box in local parlance) which work for six to eight hours after each charge. And they are charged only after prior payment – ₹5 per charge for the lantern and ₹250 to ₹300 per month for the *bijli* box which can run two LED lights and fans at a time, charge mobiles, etc. "The model is sustainable and has the typical dynamics of an infrastructure project, which has a pay-

back period of five to six years."

Naturetech, too, takes the prepaid route. With a loan from the National Bank for Agriculture and Rural Development under its Rural Innovation Fund, it has developed an SMS-based prepaid meter. "Customer pay an initial connection cost of ₹500 to ₹1,500 for the wiring, switch-board, etc.," says Shyam Patra, Founder and Director, Naturetech. "Thereafter, there is a monthly recharge of ₹100 to ₹300. We also have recharges of smaller amounts for shorter periods." However, DESI Power bills micro enterprises at ₹16 to ₹18 per unit and households a flat ₹120 per point per month, with Sharan maintaining that payments are not a problem. Mera Gao Power, which sets up a microgrid in \$900 (about ₹54,000), charges villagers a flat ₹25 a week. "For us, revenue is proportional to the number of customers," says Nikhil Jaisinghani, Co-founder. "We aim to reach 40,000 customer households by end-2015 and 100,000 the following year. We expect to start making profits at about 50,000 customers."

Karnataka-based Simpa Networks has gone one step further by making the community the eventual owner of the solar microgrids it sets up. It began by supplying metering technology to microgrid companies, but now also provides power to rural customers, charging – apart from a small initial payment – ₹25 a day for 28 months. Thereafter, customers become owners of the plant and do not pay anything at all, but manage its maintenance. This has the added benefit that no one tampers with the system since customers have a stake in keeping it running.

Naturetech recently set up a solar microgrid at Belkhor village in Amethi, UP, as part ACC Tikaria Cement Works' CSR effort, supplying power to 30 households and fully funded by the company. More companies involving microgrid players in their CSR activities will surely help the latter find a firmer footing.



Charging ahead: Naturetech Infrastructure has developed an SMS-based prepaid meter. Customers can opt for a monthly recharge of ₹100 to ₹300. Smaller recharges of ₹10 (one day), ₹50 (seven days), and ₹100 (15 days) are also available

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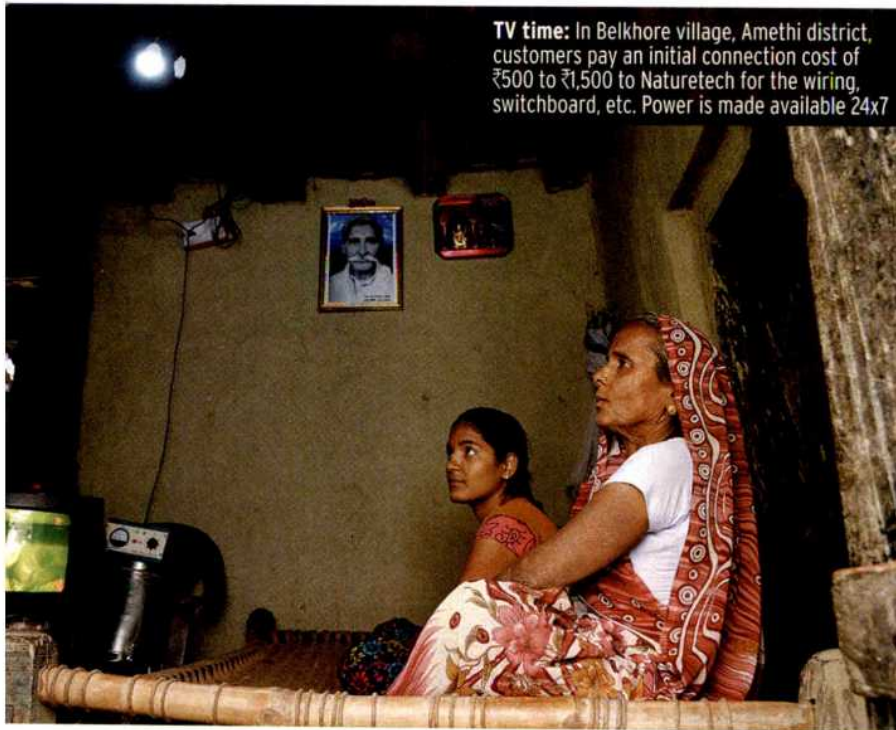
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33% OF ALL INDIAN HOUSEHOLDS (ABOUT 80 MILLION HOUSEHOLDS, OR OVER 300 MILLION PEOPLE) AND 45 PER CENT OF RURAL HOUSEHOLDS DO NOT HAVE ACCESS TO ELECTRICITY

Policy Pangs

There is one more pitfall microgrid players are well aware of but can do little about. What happens if, after a microgrid has been set up in a non-electrified area, a state-run company enters supplying highly subsidised grid power? Or if the currently erratic power supply in most rural areas dramatically improves? The microgrid company is bound to lose most customers. "There is constant talk from the government about regulating the sector. For political reasons, the government also talks a lot about grid expansion... The private sector is scared of the government's actions and words," says Jaisinghani. Sameer Nair, Co-founder of microgrid operator Gram Oorja Solutions, says it is a risk especially for solar microgrids, which take a relatively long time to break even. Author Deorah agrees. "There is currently no backup exit

strategy," she says. "That is another reason investors shy away."

The solution obviously lies in the state and private companies working more closely together. Indeed, some experts feel the state alone should set up microgrids with the private sector playing only a supportive role. "We need high quality microgrids in rural India but perhaps these should be state funded," says Anant Sudarshan, Senior Research Manager at the Abdul Latif Jamaal Poverty Action Lab (J-PAL), South Asia, an initiative of the Massachusetts Institute of Technology. "This would allow micro-scale decentralised generation without having to worry about building distribution infrastructure."

Some states like Chhattisgarh and West Bengal, and regions like Ladakh, have already moved in that direction. The Chhattisgarh State Renewable Energy Development

Agency (CREDA), for instance, provides power from solar photo voltaic plants to 39,406 households in remote villages which are not covered by the central government's rural electrification scheme, the Rajiv Gandhi Grameen Vidyutikaran Yojana. But it is private companies, selected through competitive bidding, which have set up the plants as well as the distribution network. CREDA charges users a one-time fee of ₹300 and thereafter just five rupees a month. "The distribution network has been installed in such a way that, in case these villages get connected to the conventional grid at some future stage, the same network can be used," says Sanjeev Jain, Chief Engineer, CREDA. "The power the solar plant produces will also go into the grid." Similar coordinated efforts by other states are also needed if Prime Minister Narendra Modi's stated goal of electricity for every household by 2019 is to be realised.

However, despite the hurdles, some microgrid companies have attracted substantial funding. Among the investors in Simpa Networks, for instance, are the Asian Development Bank, USAID's Development Innovation Ventures, International Finance Corporation and many more. It has so far raised \$5.9 million in grants and equity and recently received even more. "We have just closed a new \$7.2 million round of financing, comprising \$4 million debt and \$3.2 million in equity," says Paul Needham, Co-founder and President. So too Mera Gao Power has raised grants and loans from the likes of USAID-DIV, Insitor Seed Fund, National Geographic and others. "Each company is responding to different opportunities," says Jaisinghani. "To succeed, however, there will have to be consolidation. We hope that by 2018 there will be such consolidation and investors and lenders will understand how to evaluate companies in this space." ♦

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Gaurav Dua receiving award from Maharashtra CM, Devendra Fadnavis with Amit Shah and Punit Goenka, MD- ZEEL



Anand Rathi & Priti Gupta receiving award from Chief Guest, Amit Shah, President-BJP with Adi Godrej and Dr. Bhaskar Das, Group CEO- Zee Media



Amisha Vora receiving award from Suresh Prabhu, Railway Minister with Amit Shah and Amish Devgan, Editor- Zee Business



Chanda Kochhar receiving award from Amit Shah with Samir Ahluwalia, CEO- Content, Zee Media and Ashish Pandit, CEO- Zee Media



Rashesh Shah, Chairman and CEO Edelweiss Group receiving award from Chief Guest, Amit Shah, President-BJP, Piyush Goyal and Amit Goenka, Director- Essel Group

At the 5th edition of India's Best Market Analyst Awards, Zee Business honoured the most reputed names in the industry. The event was attended by statesmen such as Dr. Harsh Vardhan, Minister of Science and Technology and luminaries from the corporate world such as Ajit Gulabchand, Sunil Alagh, Habil Khorakiwala, Pranav Adani, Hemant Kanoria, Harsh Mariwala, Y.M. Deosthalee, Vallabh Bhansali and Rakesh Jhunjhunwala. The award is yet another initiative by Zee Business to promote and appreciate the industry.



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Reaching Out

THE PROPOSED PAYMENT BANKS ARE EXPECTED TO BRING BANKING SERVICES TO THE DOORSTEP OF MILLIONS OF CUSTOMERS IN FAR-FLUNG AREAS. BUT THERE ARE CHALLENGES GALORE.

BY ANAND ADHIKARI



In the dusty bylanes of the Mumbai suburb Mankhurd, several people are loitering around a three-month-old branch of FINO PayTech, a banking correspondent focused on micro payments. Customers are walking into the branch at a leisurely pace holding currency notes in their hands. The residents of Mankhurd – mostly daily wage labourers, migrant workers and small business owners – use the FINO branch primarily for remitting money to their families in far flung regions of the country such as Uttar Pradesh, Bihar and West Bengal. “We are already doing ₹25,000 to ₹30,000 remittances per day,” says 35-year-old Rajesh Bhayaje, who mans the small 88-square-foot branch along with an assistant.

Clearly, the convenience of doing a transaction next door is encouraging people to use a non-banking channel than go to a commercial bank. There are many users who

don't even have a bank account. The transaction process at FINO is very simple. It requires a mobile number for registration, receiver's name and bank account along with some other details such as the village and the district area where the money is being transferred. The money reaches the receiver's bank account instantly via ICICI Bank's payment gateway. There is no physical receipt. The customer gets an instant confirmation on his mobile.

In fact, more than the comfort factor, it's the low cost of transactions that draws customers. An added attraction is the small quantum transactions (as low as ₹100). Today, a ₹5,000 remittance from anywhere in India will cost ₹250 at a post office, ₹100 to ₹150 at a bank and ₹75 at an outlet run by the likes of FINO Paytech.

Similarly, India Post, telecom companies through services such as Airtel Money and M-Pesa (Vodafone), prepaid mobile payment instrument providers (Oxygen, Itz Cash, etc) and business correspondents are also aggressive



Looking for a Break: A branch of FINO Paytech in Mumbai. FINO is in the race for a Payment Bank licence



players in the remittances business. Some of these players could soon offer limited banking services under the Reserve Bank of India's (RBI) differentiated licensing. Those who are awarded the new 'Payment Bank' licence would be able to accept deposits (but not lend), invest in government securities, offer small value payment services (remittances, utility bills, mobile recharge, ticketing) and distribution of investment products such as mutual funds and insurance plans. (See *The Big Opportunity*).

"The purpose of payment banks is to facilitate last-mile access in areas where banking is limited or has not reached yet. This will require technology and a low-cost model to be sustainable in the long run," says Pramod Saxena, Co-

founder and Chairman of Oxigen Services (India). Just like FINO PayTech, Oxigen Services would be applying for a payment bank licence. The RBI has set February 2 as the deadline for submitting the application for a licence. Consumer goods companies, India Post and co-operatives have also been allowed to apply for the licence.

So, why the sudden need for payment banks?

The answer lies in the inability of the banking industry to reach a large swathe of population. "The banking model has worked for only 20 to 30 per cent of the population," says Naveen Surya, Managing Director of Itz Cash. Clearly, the earlier business model for achieving financial inclusion – through multiple financial institutions including co-operative banks, regional rural banks and PSU banks – didn't yield results. The PSU banks also used the route of self-help groups (SHGs), a financing model for women, and banking

BANKING Payment Banks



In the reckoning: India Post can convert into a payment bank. It is eligible to bid for a licence

THE BIG OPPORTUNITY: Market size, growth rates and how payment banks can make money

DEPOSITS: ₹85,00,000 crore

ANNUAL GROWTH: 15-18 %

Payment banks can pay 4-5% interest on savings account and deploy the funds in government securities at 8-9%

DOMESTIC REMITTANCES: ₹1,20,000 crore

ANNUAL GROWTH: 10-15%

Payment banks can earn commission of 1-2% on the amount remitted

DISTRIBUTION OF THIRD-PARTY INVESTMENT PRODUCTS

a) Life insurance annual premium size: ₹1,19,641 crore

ANNUAL GROWTH: 10-12%

b) Mutual Funds' annual subscriptions: ₹54,000 crore

Commission ranges from 1-5% on savings and investment products

OTHER OPPORTUNITIES

a) Utility bill payment: ₹9,60,000 crore

ANNUAL GROWTH: 20-22 per cent

b) Ticketing: 4,00,000 bookings daily on the IRCTC website

c) Mobile recharge: ₹5,000 crore

ANNUAL GROWTH: 8-10 per cent

(Source: RBI, IRCTC, industry estimates)

(Data as of March 2014)

correspondents but failed to create any big impact.

Offering a Choice

There are an estimated 100 million poor people who live in urban areas. The urban population is going to jump over the next 25 years – from the current 26 per cent to between 36 and 50 per cent of the total population. The number of urban poor, according to an estimate, would increase to over 200 million in the same period. This is just one part of the big opportunity. There is also a huge unbanked population in the semi-urban and rural areas. It is a huge payment opportunity, especially for remittances and other low-value transactions. "These transactions require a low-cost delivery channel," says Rishi Gupta, Executive Director and Chief Operating Officer of FINO PayTech, echoing Saxena of Oxigen.

Gupta's FINO has already opened 45 million accounts for banks and facilitates government payments in the National Rural Employment Guarantee programme as well as social security pension schemes. Indeed, the RBI's permission to payment banks to accept savings and current account deposits offers yet another opportunity to create volumes. The upper limit is ₹1 lakh per customer. Ever since the RBI deregulated the savings interest rates, banks are offering four to six per cent interest per annum on savings accounts. The banks don't offer any interest rates for current accounts. The permission to accept deposits allows these players to earn a clean two-three per cent margin as these deposits have to be compulsorily parked into statutory liquidity ratio (SLR). It restricts investment to only gold and government securities, which give a return of eight to nine per

NAVEEN SURYA/ MD AND CEO/ ITZ CASH
**"THE BANKING MODEL HAS
 WORKED FOR ONLY 20-30
 PER CENT OF THE POPULATION"**

cent per annum. The third big opportunity lies in the distribution of third-party products, especially insurance and mutual fund schemes.

The RBI's concept of payment banks is not a novel idea. It has been inspired by Kenya's M-Pesa, a company of Vodafone. It created a stir in the African country by transferring cash via a mobile phone on a mass scale. Any user who wishes to transfer money can go to a M-Pesa outlet to deposit money in his mobile wallet by giving cash. He then remits the same via SMS to a receiver, who in turn collects the money from any M-Pesa outlet. Experts say the RBI wants to replicate the M-Pesa success story in India.

A mini-version of M-Pesa is already up and running in India through the RBI license to pre-paid instrument providers (PPPs). These PPPs are permitted to receive cash deposits up to a maximum of ₹50,000, store it in a digital wallet and allows customers to pay for utility bills, movie tickets, mobile recharge, etc. Today, these PPPs are required to create an escrow account with a commercial bank for depositing the money. In future, these PPPs will not need a bank if they become a payment bank.

There does appear to be a massive opportunity for payment banks. But there are challenges also as they are not full-fledged banks offering the whole gamut of banking services. The recent move by the RBI to give a universal banking licence to Bandhan Financial Services, a Kolkata-based microfinance institution, would result in direct competition to payment banks as Bandhan's playground is people at the bottom of the pyramid. Similarly, there are private banks in India which are expanding into rural and semi-urban areas with a new business model. HDFC Bank, for instance, has 55 per cent of its branches in such areas – it is



RACHIT GOSWAMI

now setting up small-sized branches to control costs.

Meanwhile, there could be some tie-ups between uni-

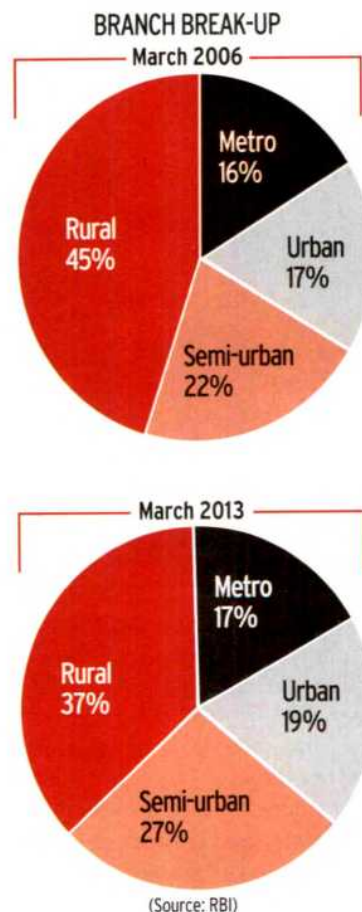
versal and payment banks. "By definition, payment banks have to be small ticket than big ticket," says Vishwavir Ahuja, CEO and MD of RBL Bank, a mid-sized old private bank. He adds that his bank's DNA is intrinsically small ticket. "I would expect some of the interested players may want to collaborate with us," hopes Ahuja. (See *Stiff Competition*). Most large banks, though, will have to persist with the banking correspondent model to reach out to remote areas where they cannot set up branches.

The big competition for payment banks will come from large local players currently offering remittances, bill payment services, etc. After all, not everyone will get a payment bank licence. Similarly, many payment bank candidates operate through a huge network of franchisees who deal with multiple service providers. These franchisees will also continue to operate in the market with tie-ups with different players for remittances, utility bills, mobile recharge, etc.

Clearly, it is not going to be an easy ride for the new payment banks. ♦

@anandadhikari

STIFF COMPETITION
 Commercial banks are expanding into semi-urban areas, a key market for payment banks





At The Oberoi in central Delhi, guests can order eggs any way they want: from the standard masala omelette to Eggs Benedict, or even the Latin American Huevos Rancheros. That's par for the

course for any big hotel. But what makes the Oberoi cooks sweat is P.R.S. Oberoi's habit of checking eggs. The 85-year-old Chairman of East India Hotels (EIH), which runs the Oberoi group of hotels, randomly picks an egg, breaks it, and stares at the yolk. It had better be a deep shade of yellow – called 'sunrise yellow'.

Anything even marginally off from his approved colour, and he is likely to reject the entire batch.

P.R.S. Oberoi – his name on his passport reads Prithvi Raj Singh – gets impatient if asked about this obsession for detail. "That's part of my job," he says, describing how he goes through all drawings of the group's



THE OBEROI RETURNS

P.R.S. Oberoi's vintage hotel brand is more than holding its own despite increasing competition – even as it seeks new markets to conquer.

By SUPROTIP GHOSH and JOSEY PULIYENTHURUTHEL

PHOTOGRAPHS BY VIVAN MEHRA

new projects. A case in point is the restoration of The Oberoi Trident, the group's property on South Mumbai's Nariman Point seafront – a ₹178-crore project. The hotel had to be closed down after machine-gun wielding terrorists stormed the hotel during the 26/11 attacks of 2008. Overnight, almost half the group's

revenues vanished. To make things worse, 2008/09 saw the whole world in the jaws of a financial crisis with luxury and upmarket business travel thinning down to a trickle. The group was staring into an abyss but Chairman Oberoi – popularly known as Biki – would not cut corners in the restoration lest it took away from the

customer experience.

Putting guests first is a lesson P.R.S. Oberoi learnt from his father Rai Bahadur Mohan Singh Oberoi, who began as a desk clerk at the Cecil Hotel in Shimla and eventually went on to acquire the Clarkes Hotel from his mentor Ernest Clarke. M.S. Oberoi relentlessly expanded his empire after



(From left) Arjun Oberoi, Vikram Oberoi & Kapil Chopra

“WE BECAME SLIGHTLY UNCONVENTIONAL, AND YET, COMPLETELY CONVENTIONAL 1970S MBAs IN OUR APPROACH THAT EVERY SINGLE EFFORT IN OUR ORGANISATION SHOULD BE FOCUSED IN ONE SINGLE DIRECTION” — KAPIL CHOPRA

acquiring the 500-room Grand Hotel in imperial Calcutta and a controlling interest in the Associated Hotels of India that owned the Cecil, and hotels in Lahore, Rawalpindi, Peshawar and Murree. The group operated the hotels in Pakistan until 1965 but lost all four after the Indo-Pak war.

Today, the Oberoi group has grown into a chain of 30 business and luxury hotels in India and abroad. These hotels, in five stars and the “de-luxe” category, include two brands – the Oberoi and the Trident. That number may not seem a lot given that competitors like the Taj group (over 100 properties) and ITC Hotels (98 properties) have their flags in more locations. But the Oberoi group has always preferred to

play in the top two segments of the hotel business, and stayed away from the middle-of-the-road segments that have shown the highest growth in recent years. More importantly, it has preferred to grow slowly but keep standards intact and own all its properties, instead of managing them.

Of late though, the Oberoi group has been facing unprecedented competition. Not only are its Indian competitors – Taj and ITC – expanding rapidly, it also has to contend with a host of global companies that have entered India in the past few years. And while it may still have more hotels in India than the global players, the latter have a certain advantage when it comes to busi-

ness traffic. The Marriott (25 hotels in India), for example, can leverage its global properties and multiple brands to offer better discounts and packages to globetrotters – a corporation can sign a deal with the Marriott where mid-level executives can stay at a Courtyard or Fairfield, while C-suite executives stay at JW Marriott or Ritz Carlton.

Despite these handicaps, the Oberoi group is clear it will stick to its knitting, and make its brand strength the differentiator in the luxe and up-scale categories. While the Oberoi and the Trident compete with different hotels in different cities, they are among the top three in most regions, says Manav Thadani, Chairman, Asia-Pacific for hospitality consul-



tancy HVS. The Oberoi Delhi competes with the Taj Mansingh for business guests; in Bangalore, its rival is the Leela Palace in the five-star deluxe category. In Mumbai, it would be competing for conventions with the JW Marriott. In some markets, it competes with ITC Hotels. "In the three big cities – Delhi, Mumbai and Bangalore – it will certainly be in the top two, if not at the top," says Thadani.

The group, however, was hit hard by the global financial crash of 2007/08 and the 26/11 attacks in Mumbai. EIH's revenues have struggled to grow and profits are today still at half those levels. In 2007/08, the company made a net profit of ₹223.63 crore on revenue of ₹1,315.73 crore, numbers from the CMIE Prowess database show. Net profit in 2013/14 recovered from preceding years but still stood at ₹111 crore. But these were brutal years for hoteliers when the addition of more than 30,000 branded rooms led to a glut. Almost all the players have suffered (see table *Gaining Ground*). Indian Hotels Company, the Tata group arm that runs Taj hotels posted a net loss in 2013/14 to some extent because it had expanded too aggressively. Debt-laden Hotel Leelaventure is worse off. ITC Hotels' revenue grew 5.5 per cent from a year earlier to ₹1,133 crore in 2013/14 with profit before tax rising only 1.4 per cent to ₹140 crore.

Oversupply in rooms coupled with slower demand led to weaker pricing. This affected RevPAR, short for revenue per available room, a performance metric that blends occupancy and rent yields. (If the per room rent yield is ₹10,000 and occupancy 65 per cent, RevPAR works out to 6,500.) Shib Sanker Mukherji, Vice Chairman and CEO, claims that on a RevPAR basis the group is doing ₹200-250 better than its competitors in most markets (it is about four per cent more than last year group-wide). At The Oberoi Udaivilas, the uber-luxury hotel in Udaipur, RevPAR has

grown by ₹2,200, or 22 to 23 per cent, from last year, Mukherji adds.

To crank up RevPAR the Oberoi group has had to step away from its traditional way of doing business, and try and induce demand. "We looked at our guests, we looked at data and said, what appeals to people," says President Kapil Chopra of a marketing drive that started two years ago.

For example, ahead of an upcoming long weekend, someone who has stayed at an Oberoi hotel in the past will get a campaign mailer for a quick, impulsive holiday. Behind these incentives thrown into

the mailer will be analytics of the guest's past spending patterns, whether on food and beverages or spa. F&B, for perspective, made just short of ₹500 crore for the group in 2013/14.

"We became slightly unconventional, and yet, completely conventional 1970s MBAs in our approach that every single effort in our organisation should be focused in one single direction," says Chopra of the company's integrated marketing effort. "The monthly accountability shifted to weekly before finally becoming a daily service," he points out. With some 110 people in sales



The Oberoi, Gurgaon

EIH'S TROUBLES

26/11 terror attacks

Financial meltdown and recession-affected travel

Costs continued to climb

AND, HOW IT MANAGED

Aggressive marketing

Roped in new shareholders

Cost-cutting

and 12 people in marketing, the numbers present a big change at the Oberoi. In 2012, the group ran six 'campaigns' targeting customers. In 2013, it ran 54 campaigns and is going to end 2014 with 60.

The aggressive marketing helped it sell 31,000 room nights more on the same inventory of 3,900 rooms in India and some 1,000 overseas in 2013. The spring in the group's fortunes finds its lead in its biggest market, Mumbai, where it added a new Trident in the Bandra Kurla area in 2009 to retain its hold.

"Bombay is a big, big recovery today," says Mukherji. "The occupancy rates for South Bombay is about 64 per cent, and overall for the group is close to 69 per cent. We are about three [percentage

points] better than the industry."

The Oberoi Product

At the core of the Oberoi USP is guest service and that's what brings in regulars such as Sanjay Rishi, President, American Express South Asia. He loves the "anticipatory service," and cites how he once asked for a brand of Oolong green tea at an Oberoi hotel he'd checked into. Today, no matter which Oberoi hotel he stays at, his room is stocked with tea leaves for his favourite brew. "It is that feeling of caring, warmth that separates memorable experiences and the desire to return," he says.

Behind Rishi's experience and those of others is science. Each time a guest stays at any Oberoi hotel, as many details as possible are fed into a finely honed guest management system – photo identification, his preferred airline or car, dietary choices, favourite flower or welcome drink, sleep patterns, pillow options, to name a few. The details are disseminated to the staff daily. The system transfers the stress of guest serv-



S.S. MUKHERJI,
Vice Chairman &
CEO, EIH

“NO HUMAN'S OBSESSION CAN BE PASSED ON TO ANY OTHER HUMAN. OBSESSION IN BUSINESS GETS FORMED INTO A SYSTEM. IN OBEROI, THAT SYSTEM IS WHAT EVERYONE IS TUNED INTO”

ice away from individuals to the computer to a large extent, says Mukherji. "No human's obsession can be passed on to any other human. Obsession in business gets formed into a system. In Oberoi, that system is what everyone is tuned into," he says.

Still, the catchment for luxury hotels has become intensely competitive with the economy still growing slowly and luxury travellers holding their purse-strings tight. One way to combat this is choosing to strategically expand in other countries. EIH has no choice really. As Rattan

Keswani, Deputy MD at Lemon Tree Hotels, who spent 31 years in the Oberoi group, says, "In India, the next phase of growth will come from Tier-II and Tier-III locations, which are not suitable markets for Oberoi."

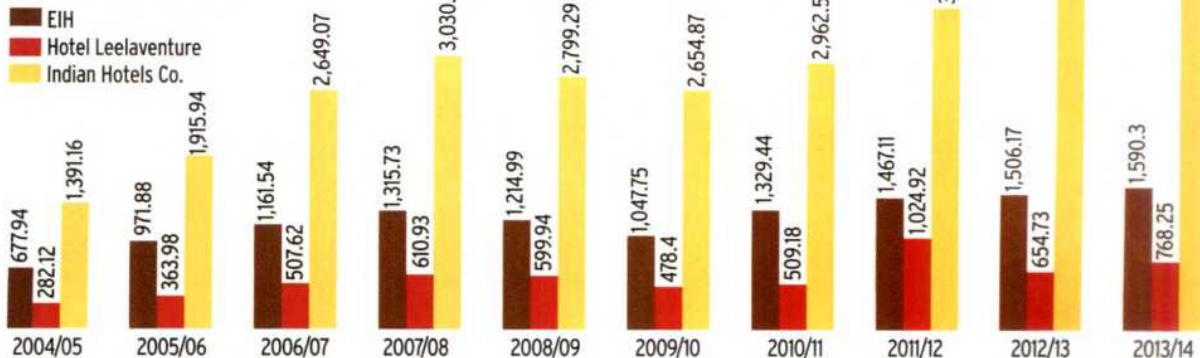
But expansion abroad is not easy, if the Indian Hotels' experience with the Orient Express Hotel group is any indication. In 2013, the Tata group, which had previously acquired two hotels (Ritz-Carlton and Campton Place) in the US in 2006 and 2007, abandoned its \$1.2 billion bid for the luxury brand with 45 hotels, cruises and luxury rail businesses in 22

countries. The Oberoi group had evaluated it, and decided not to go ahead with the bid as the sellers merely wanted to give away six to eight per cent stake. P.R.S. Oberoi was clear he would not come away without the full prize.

Rather than acquisitions, he has now decided to go it alone. By 2017, the group will start, one after the other, hotels in Ajman, an emirate that shares the airport with Dubai, and the historical cities of Marrakesh and Casablanca in Morocco, northern Africa. The company has 1,280 rooms abroad – primarily in Egypt,

GAINING GROUND: EIH IS BETTER OFF THAN ITS COMPETITORS

TOTAL ANNUAL INCOME



PROFIT AFTER TAX

	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12	2012/13	2013/14
EIH	26.43	193.57	197.25	223.63	169.5	70.99	-12.75	120.78	46.94	111.02
Hotel Leelaventure	46.04	70.41	125.98	148.55	144.96	41.04	37.82	18.62	-433.49	-441.51
Indian Hotels Co.	79.44	208.84	336.03	313.54	2.74	-118.4	-68.87	25.82	-390.75	-523.11

All figures in ₹ crore

Source: CMIE Prowess

Dubai, Indonesia, and Mauritius – including the 235 coming up in Marrakesh and Casablanca.

Oberoi wants to be in London and New York, possibly Paris, and would also like to have a presence in Thailand, Singapore and Hong Kong. “You need the right opportunity, the right partner and the right sight,” he says. “Today, for a five-star hotel, the cost is ₹2.5 crore a room, without land. Abroad nothing is less than \$500,000 (₹3 crore) a room.” Without partners and his aversion to debt, those ambitions will take time to turn to reality. He is adamant he will not ask any of the stakeholders such as Reliance industries for assist-

ance in raising funds. “They are purely financial investors in this company,” he says.

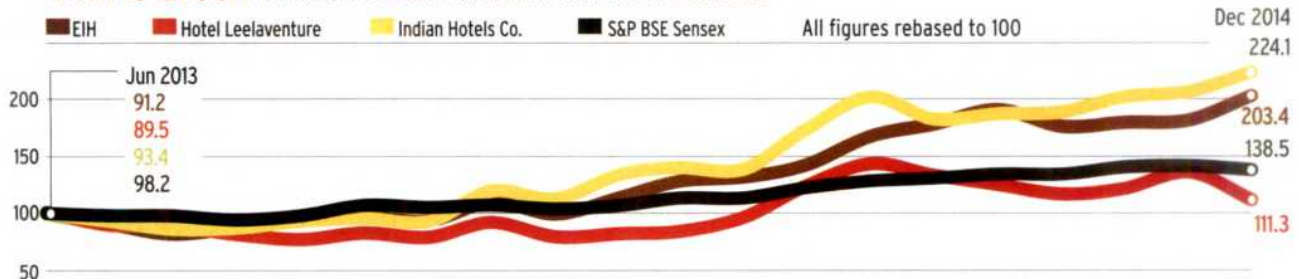
Reliance came as a white knight in 2010, when ITC Chairman Y.C. Deveshwar was purchasing shares of EIH through treasury operations. In March 2012, Reliance increased its stake in EIH to 18.53 per cent by buying out Max Group Chairman Aniljit Singh’s 3.73 per cent stake. ITC still holds close to 14.98 per cent in EIH with its unit Russell Credit owning another 1.15 per cent. Oberoi and his family own about 35 per cent of EIH. Both P.R.S. Oberoi and Mukherji say that they will not buy back any shares, nor declare generous divi-

dends. “I will use the money to start new hotels,” says Mukherji. When asked if he’s ever met Deveshwar, Oberoi’s answer is “only socially”.

Heirs to Care for the Heirloom

In a situation fraught with so much uncertainty, at least one thing is taken care of – the succession issue. The two scions of the family are joint managing directors. “They are already running the company together,” Oberoi says of Vikram, his son, and Arjun, his nephew. Such a relationship may mitigate the risk of a split as has been witnessed in several other corporate groups in India.

TAKING STOCK EIH HAS OUTPERFORMED THE BENCHMARK SENSEX



Swaran Sehgal, Partner and Practice Leader, Leadership Consulting, Grant Thornton India, has helped companies like the Mumbai-based Edelweiss Group go through succession planning. Usually, businesses initiate the process of transformation when a crisis happens, he says. However, successful organisations take a proactive approach by focusing on planning, prevention, values, clarification, training and development, and relationship building.

The idea came from his father and P.R.S. Oberoi set the ball rolling early, vesting the cousins with responsibilities starting at the bottom rung. Arjun started from the procurement department at the Oberoi Grand in Kolkata, landing up in the city after spending 17 years in England. It was pretty much the same story with

collective effort to deliver that overall objective, which is very clear in all our minds. It is this alignment of thought, alignment of purpose. There is no one way to skin the cat."

The challenges before Vikram, Arjun and Chopra are gorilla-sized. "Customers are getting younger, and by that I don't mean in their age. I mean in their outlook. People are looking at more dynamic experiences," says Arjun. In a capital-intensive industry, that's easier said than executed. Hotels can't be remodelled every two to three years. The Vikram-Arjun-Chopra trio will not reveal their plans but say the strategy will hinge on the group's people captured in P.R.S. Oberoi's "happy people, happy guests" motto. When a hotel is remodelled, among the top things on the chairman's

dalone hotel. The group is considering residential and commercial real estate development on a plot of land in Bangalore. These will be like 30-storey high-rises, similar to gated communities, says Mukherji. The edge will still be people, says Oberoi. "We can provide concierge services, maid services, and even security, if you are willing to pay," he says.

The group is considering the emerging asset-light model. One option to ease the burden of capital in constructing a new hotel – a 300-roomer will cost ₹750 crore or so – is to jointly develop properties or enter into management contracts with existing properties. One such collaboration is a hotel in Vashi, North Mumbai, being built with Reliance.

Business Today



VACANT ROOMS

After 2010/11, average occupancy at hotels in India has faltered

	2008/09	2009/10	2010/11	2011/12	2012/13	2013/14
OVERALL AVERAGE	59.5	59.5	60.6	59.3	57.8	58.9
FIVE-STAR DELUXE	62.5	61.6	60.9	59.8	60.1	60.5
FIVE-STAR	58.5	58.6	61.9	59.1	55.4	58.1
FOUR-STAR	58.5	60.3	60.7	60	57.9	57.9
THREE-STAR	56.2	55.5	58.5	56.9	56.8	58.4

All figures in %

Source: HVS Hospitality Services

Vikram, who started low down the ladder with The Oberoi, Bombay.

Sehgal says a lot depends on the extent to which the next generation wants to take control and how much the current generation wants to let go. CEO Mukherji says both have picked up their own interests – Vikram in operations and Arjun in design and planning. This has created an inter-dependence that works well for the company. "It is not about Arjun and me, or Kapil and me," says Vikram. Adds Arjun: "It isn't one person's idea, it is about making a

to-do list is staff facilities. All fresh hires are made only after at least one among the top five people at EIH interview them. Of course, there are challenges – with 40-50 hotel brands jostling for the same talent, and poaching rampant, it's becoming harder and harder to find the right people, and how the group does this will determine its course.

Moving with the Times

At 85, P.R.S. Oberoi is now bowing to the industry trend of mixed use real estate as opposed to a stan-

met P.R.S. Oberoi twice for this story at his sprawling farm on the south-eastern outskirts of Delhi. It's clear the service excellence he created is safe and secure. How the next generation builds it to the next level will decide its future. The veteran hotelier's brow scrunches up a little when asked about his legacy. "We wish to be the best, not the biggest," he replies. And, then, he breaks into a Cohiba cigar-infused raspy laugh self-assuredly. ♦

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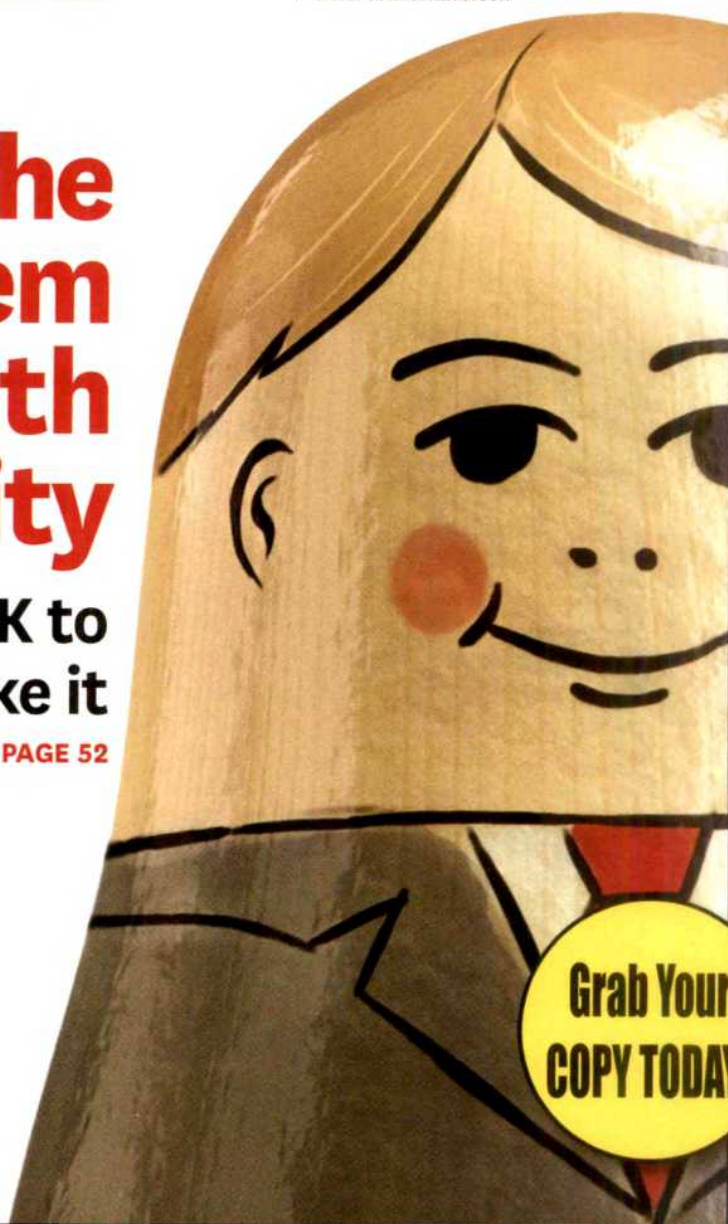
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A GLITTERING SUCCESS

Why American PE firm Warburg Pincus valued Kalyan Jewellers at a whopping \$2 billion.

By VENKATESHA BABU

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In October 20, American private equity (PE) firm Warburg Pincus announced that it had picked up a minority stake in Thrissur, Kerala-based jewellery retailing firm Kalyan Jewellers. Such an investment would have been routine in an era when PE funds have been chasing investment opportunities in India, except for two reasons.

One, Kalyan Jewellers was no e-commerce play, the favourite destination for PE investment in the country, but a chain of physical retail stores. Second, the ₹1,200-crore invested to pick up a 10 to 12 per cent stake (neither would disclose exactly how much) valued the company around \$2 billion (₹13,000 crore), raising eyebrows. How did a company, with a largely South India footprint till recently, manage to get such a high valuation, propelling its owner into the billionaire club? It has a lot to do with Indians' love for gold and some savvy moves by the company's founders.

Interestingly, Kalyan Jewellers gets about the

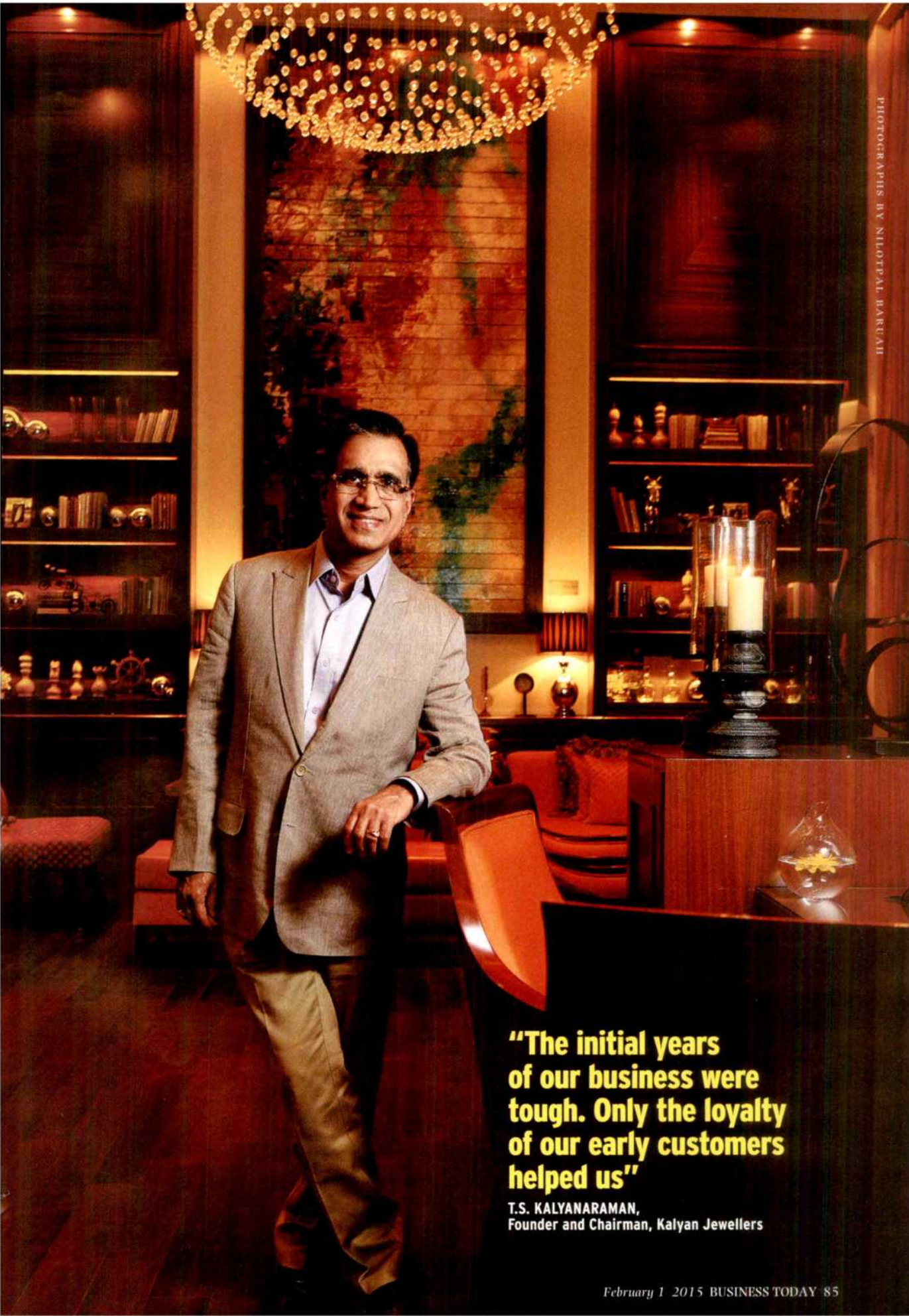
same revenue and margins as Tanishq, the jewellery division of Titan – only it has a third the number of stores that the Tata company has.

Attention to Detail

Narayan Gowda, 47, works with the Karnataka Public Works Department and, like millions of Indians, is a big investor in the yellow metal. Every year, he accumulates some gold jewellery. "I have two daughters," he explains.

On a recent Friday, he patiently waited outside a Kalyan Jewellers gold jewellery showroom being inaugurated in the upscale Jayanagar area of Bangalore. The ribbon-cutting was being done by Kannada superstar Shivaraj Kumar to draw crowds but Gowda was there for another reason. He had heard that this jewellery chain fixed the entire price of each item transparently. "I did not have to endlessly haggle at billing time on making and wastage charges which made my purchase hassle free," he says.

Gowda ended up buying a pair of bangles but a surprise was in store. A week later he received a call from the billionaire founder chairman of



**"The initial years
of our business were
tough. Only the loyalty
of our early customers
helped us"**

T.S. KALYANARAMAN,
Founder and Chairman, Kalyan Jewellers

Rich Valuations

Kalyan Jewellers is valued higher than most rivals despite relatively low revenues

	Revenue	Profit	Market Cap
Rajesh Exports	29,197	360	4,233
Gitanjali Gems	12,436	36	528
Titan Company	10,915*	741	33,847
Kalyan Jewellers	7,550	N.A.	13,000**
PC Jewellers	5,325	356	3,860

Figures in ₹ crore; market capitalisation as of Dec 31, 2014

*Jewellery is about 75% of Titan's revenue

**Valuation after stake sale to Warburg Pincus

Source: Company reports, stock exchanges

the company, T.S. Kalyanaraman, enquiring about his entire buying experience. Pleasantly taken aback at receiving such personal attention from the top honcho of the company, Gowda intends to be a repeat customer.

Kalyanaraman is a short, reticent man, who more often than not likes to speak in monosyllables, sports Armani suits and wears a diamond ring and a chunky gold chain. The call to Gowda was his way of ensuring that every month he talks to at least 10 customers, selected on a random basis, to get first-hand feedback.

This degree of attention to detail is one of the reasons why Kalyan Jewellers, a relatively recent entrant to the business, has tasted big success.

Textile to Jewellery

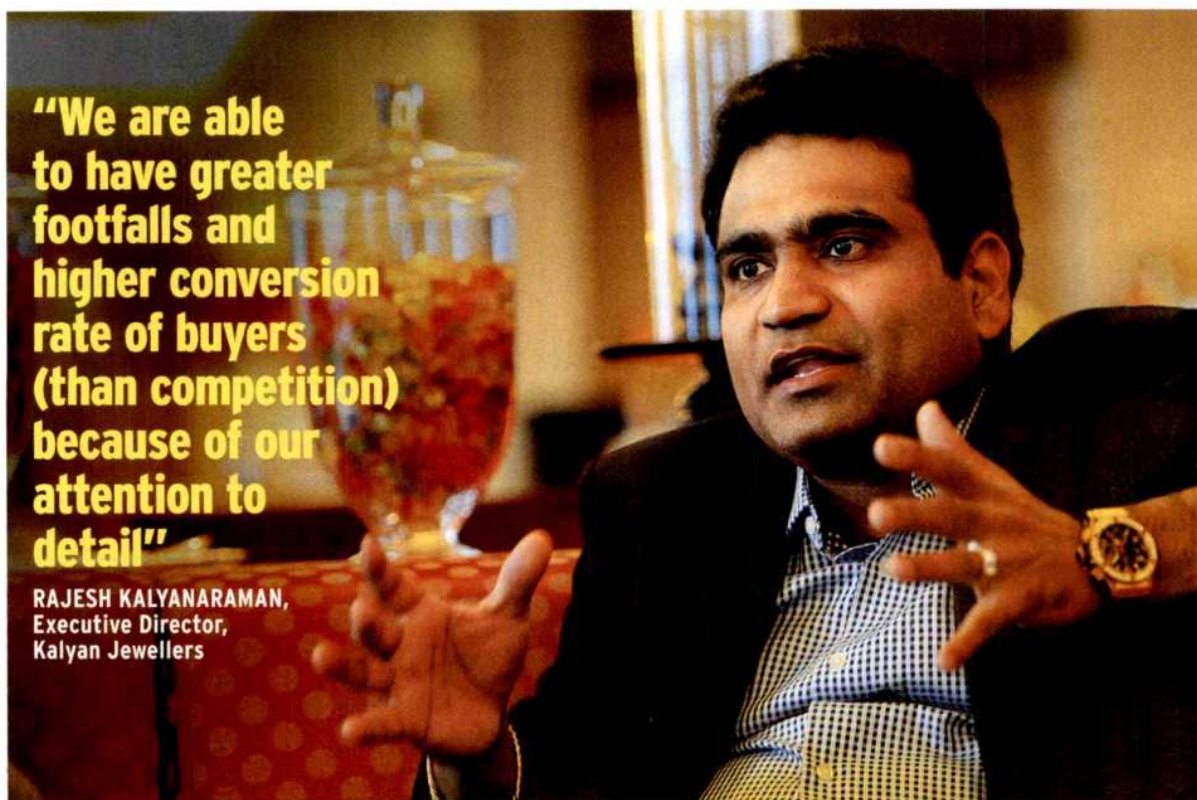
It was only in the early 1990s that the jewellery trade slowly started becoming more organised. A clutch of large pan-India players such as Rajesh Exports (1990), Tanishq (1994) and Gitanjali Gems (1986) emerged on the horizon.

This was also the time that Kalyanaraman, a traditional textile seller in Thrissur who primarily sold wedding finery and had a reputation of being a straight dealer, was being goaded by his customers to also offer jewellery. It would have allowed Kalyanaraman's clients to buy both jewellery and clothes, the two big-ticket consumption items for any Indian family, under a single roof.

By 1993, Kalyanaraman had a flourishing textile trade, a business launched by his father in 1950s. He then decided to enter the jewellery business. He began sourcing jewellery and selling it at his shop with an initial investment of ₹75 lakh. One of his innovations was putting a

"We are able to have greater footfalls and higher conversion rate of buyers (than competition) because of our attention to detail"

RAJESH KALYANARAMAN,
Executive Director,
Kalyan Jewellers





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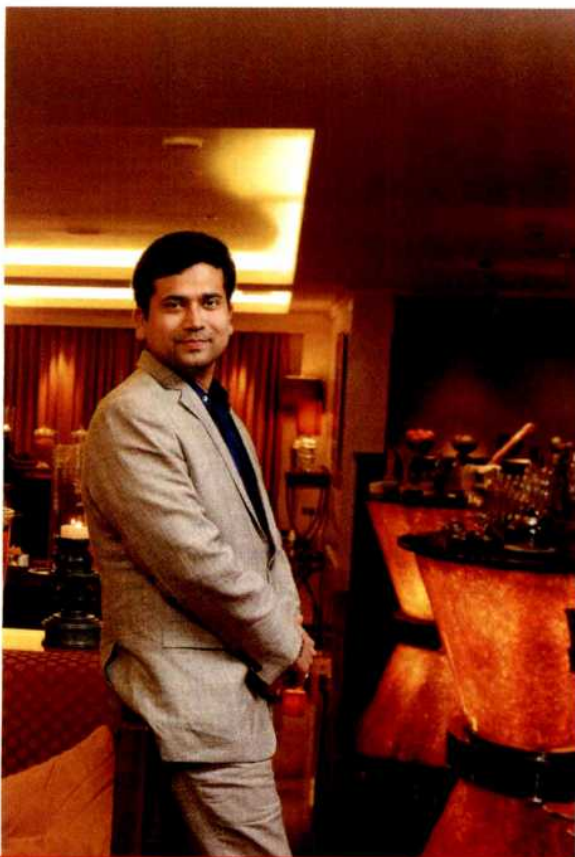
What do these companies have in common? Yes, they are all winners. And they were all featured in BT's Coolest Start-Ups listing at some point when they were small.

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Calibrated Expansion

Kerala, the tiny southern state of India, outdoes most other parts of the country in its love for jewellery. It is probably the reason why the maximum number of jewellery store chains such as Malabar Gold, Chemmanur, Josco and Alukkas, amongst others, have emerged in the state.

Amidst such stiff competition, it was not easy for Kalyan to make a mark. However, Kalyanaraman set up his own manufacturing facilities once business started expanding to ensure quality control, offer unique designs and own the complete value chain. He continues to partly source some of his jewellery.

A careful and calibrated expansion meant that irrespective of the price fluctuation of the raw material (gold, diamond or silver), the company steadily grew while increasing profits. Rajesh Kalyanaraman, 39, Executive Director of the company and elder son of the Chairman, who looks after purchase and finance, says they spend about six months studying a market before putting up a showroom. "Tanishq has almost three times the number of showrooms as us to have a similar turnover. We are able to have greater footfalls and higher conversion rate of buyers because of our attention to detail," he says. "In our two decade-plus history we have not closed a single showroom we have ever opened."

"Warburg Pincus was not the only one we spoke to nor did it offer to value us the most... but we struck a good rapport (with them)"

RAMESH KALYANARAMAN, Executive Director, Kalyan Jewellers

price tag on each product clearly indicating all the details such as making and wastage charges along with the final price. In the Indian jewellery business, where customers mostly pay on the weight of the product, the seller usually recovers his margin by tacking on other charges such as making and wastage (while creating a piece of jewellery some amount of gold is wasted). In most cases it also means compromising on the purity of gold.

By turning conventional industry wisdom on its head, Kalyanaraman attracted a loyal set of buyers who were willing to pay for design, proven purity, ambience and other incidental charges. Kalyanaraman had more than his fair share of detractors in the industry. They threatened and unsuccessfully tried to run him out of business. "Those were tough times. Only the loyalty of our early customers helped us," he says.

His younger brother Ramesh, 36, who also assists his father as Executive Director in charge of Marketing and HR, says employee loyalty has been key to the company's growth. "We treat employees like our extended family. We pay above-market wages. Attrition is mostly unheard of in the company."

It also helps that the company spends about two per cent of its revenue on marketing. It has roped in Amitabh Bachchan, Aishwarya Rai, Shivaraj Kumar, Nagarjuna Akkineni, Prabhu Ganesan and Manju Warrier as brand ambassadors.

Marketing consultant Harish Bijoor points out that most of its brand ambassadors are either icons in their regional movie industries or related to them. Thus, Shivaraj Kumar, a superstar in his own right is also the son of Kannada movie legend Dr Rajkumar. Similarly, Prabhu is

the son of Tamil thespian Shivaji Ganesan. "They have carefully selected and identified the brand with timeless icons who appeal across generations."

Kalyanaraman admits that the Indian jewellery market differs heavily from state to state and region to region. "In eastern parts, intricate Bengali jewellery is the norm, colour stone-studded jewellery is popular in parts of Andhra, and traditional jewellery in Kerala and Tamil Nadu. Each market is unique." Kalyan Jewellers' strategy of being a national player that tracks local preferences in jewellery products seems to have paid off.

A large part of jewellery demand comes from Tier-II and Tier-III cities where it is also regarded as a safe-haven asset. To penetrate these markets, Kalyan Jewellers has set up 'My Kalyan' teams. Each team with four to six members works in surrounding 'catchment areas' to push the brand by taking select pieces and displaying at local events, providing information, service and support. They also act as feeders to the main Kalyan showrooms, diverting traffic to them. There are more than 100 such 'My Kalyan' teams – they are now trying to push diamond jewellery along with gold.

Sky-High Valuations

When Warburg announced its investment it created a stir. Not surprising, since it has made some big-ticket successful investments in India – their investment portfolio includes Kotak Mahindra Bank, Bharti Airtel, Max India, Havells and Amtek Auto.

So, why did Kalyan solicit help from Warburg and why did the US venture firm value the Indian company so highly? Ramesh Kalyanaraman says the deal with Warburg was sealed over several months. "I can definitely say that they were not the only ones we spoke to nor the ones who offered to value us the most. Others offered higher money than they did. But we struck a good rapport right from our first meeting," he says. "Also their track record in India, handholding companies like Bharti and Kotak reassured us a lot."

While the Kalyanaraman family is loathe to disclose exactly how much stake they divested, the company had ₹2,000 crore net debt (mainly borrowings for working capital as jewellery is a capital-intensive business). After infusion of external funds, Kalyanaraman says its equity is at ₹1,900 crore. So the gearing, or its debt-to-equity ratio, is healthy, at just a little over one.

Vishal Mahadevia, Managing Director of Warburg Pincus India, says that what attracted his firm to Kalyan was the company's rapid growth, its profitability (company says it is on par with Tanishq) and the value system of the promoter family. "Investing money is a given. However, Kalyan worked with us because of our global expertise in handholding companies when they are experiencing fast growth and helping them make the right decisions," he says. Warburg in the past has helped portfolio companies

access cheap finance, source talent, institutionalise best practices and expand globally, points out Mahadevia.

Not everyone agrees with the valuation. "Valuing them at such high levels is a little optimistic," says the MD of a large competitor of Kalyan who did not want to be identified. The MD agrees that there is plenty of room for growth as the jewellery market becomes more organised and points out how Chow Tai Fook, the Chinese jewellery company listed on the Hong Kong market, has a valuation of \$13.5 billion. But he says competition is fierce and sounds a note of caution. "They have done well by mainly focusing on South and West India. Once they go fully national and even international, their margins will take a hit.

Steady Ascent

Kalyan Jewellers has scaled up operations over the last few years

	Revenue*	No. of stores	No. of employees
2012/13	7,192	48	4,300
2013/14	7,550	61	5,500
2014/15**	10,000	89	7,500

*Figures in ₹ crore
Source: Company

**Company projections

Let's see how they will tackle those challenges."

For now Kalyanaraman and his family are sitting pretty and are not unduly worried. A new 13-seater customised Embraer Legacy 650 aircraft will join Kalyan's existing fleet of an Embraer Phenom and a Bell 427 chopper, as the company continues to expand in India and overseas. In 2014/15, Kalyan Jewellers expects to close with revenues of ₹10,000 crore and add 28 showrooms, including 12 overseas in countries like the UAE, Kuwait, Singapore and Malaysia, to its existing 61 stores. In the next three years the company is looking to beef up revenue to ₹25,000 crore. "Whether national or international, we will act local to meet customer expectations," says Kalyanaraman. ♦

@venkateshababu

RUSH TO THE



START-UPS IN E-COMMERCE LOGISTICS ARE MOVING FAST EVEN AS THE BIGGIES GET THEIR ACT TOGETHER. By TASLIMA KHAN

At a recently held e-tailing event in Gurgaon, near Delhi, the chief executive of a logistics company, while narrating his own experience, succinctly spelled out what lies ahead for the industry. During the festive season of Diwali, he was expecting the number of orders to double but instead it went up by four to five times and led to a logjam. "I don't know what will happen next year. Only the entry of start-ups would help bridge the demand-supply gap," he said.

There has been no doubt about the growth prospects of e-commerce in India. According to the Gurgaon-based consultancy

Technopak, the \$2.3-billion (₹13,800 crore) Indian e-tailing sector will touch \$32 billion (₹1.92 lakh crore) by 2020. But for this to happen, the logistics sector – the link between e-tailers and customers – must keep pace with the rate of growth in e-commerce. And it is here that start-ups are playing a key role.

The sector has its own challenges. One of them is scaling up. At the e-tailing event, after a discussion on this topic by Kishore Biyani, CEO of Future Group, when the floor was thrown open for questions, someone asked, "How do we ready ourselves to meet the sudden spurt in orders, say a day ahead of Diwali?" Biyani in return asked a couple of questions. "Do you really want to expand capacity for that one day of big sales? What would you do with those resources after-

LAST MILE



In full steam: At the Delhivery warehouse in Kapasheda, Delhi

DELHIVERY

LAUNCHED April 4, 2011

DELIVERS TO
175 cities/3,600 pin codes

SHIPMENTS A DAY
85,000 to 115,000

CURRENT REVENUE
₹64 crore in 2013/14

GROWTH TARGET
₹220-₹240 crore by 2014/15

CAPITAL RAISED
\$40 million from Multiples Alternate Asset Management, Nexus Venture Partners & others

VIVAN MEHRA



SHEKHAR GHOSH

Core team: (From left) K. Satyanarayana; Manju Dhawan, Director, Marketing; Sanjeev Saxena, Director, Operation; T.A. Krishnan, CEO and Director

wards?" Be it the new or the old established players, the challenge lies in predicting demand, its peaks and troughs, and remaining prepared.

Most logistic companies seem to anticipate the jump in order volumes at least for the next year or two, and prepare accordingly. Gurgaon-based start-up ECOM Express is one of them. "From about one lakh shipments a day we will have to handle about two to three lakh in a couple of years or so," says K. Satyanarayana, its Co-Founder and Director. He along with three other colleagues at Blue Dart Express Ltd – T.A. Krishnan, Sanjeev Saxena and Manju Dhawan – had quit the firm to start ECOM Express in January 2013.

The rapid strides in the e-commerce sector can be gauged from the growth of another start-up, Quickdel Logistics, which owns the delivery brand GoJavas. Launched two-and-a-half years ago, its first client was Jabong, the online fashion and lifestyle retailer. Today, it serves 200 companies, delivers at 2,300 pin codes and covers about 105 cities.

According to Vijay Ghadge, COO, the company shipped five million

ECOM EXPRESS

LAUNCHED January 2013

DELIVERS TO
207 cities/2,240 pincodes

SHIPMENTS A DAY
About 85,000

CURRENT REVENUE
Not disclosed

GROWTH TARGET
₹1,000 crore in next five years

CAPITAL RAISED
₹100 crore from Peepul Capital

packages in 2013/14 and expects to ship 20 million in 2014/15. He expects the company to earn ₹150 crore in revenue by March 2015. Another start-up, Gurgaon-based Delhivery, earned ₹64 crore in revenue in 2013/14 and expects to close the current financial year with ₹220 crore to ₹240 crore. Delhivery was started in April 2011 by Sahil Barua and two others who worked at Bain and Company, a consulting firm.

All these start-ups work closely with customers and have tailor-made their services to suit customer needs. "When Zivame, the lingerie e-tailer, told us to send only girls for deliveries, we were open to that," says Satyanarayana. The firm has also set up small offices in high-density residential areas for faster shipments. Meanwhile, GoJavas has trained its deliver boys to pacify disgruntled customers by showing them the proof of their effort to deliver goods on time.

E-commerce companies vouch for the flexibility of these start-ups. "They are tuned in to our requirements," says Praveen Sinha, CEO of Jabong. Sinha, like other online retailers, works with 10 logistics companies.

But the survival and funding of a start-up depends on how it differentiates from its competitors. "After all, anyone with 15 bikes can start up," says Barua of Delhivery. Though many times the new innovative ways of one logistics firm are copied by others, some remain unique. Quickdel was the first to launch open-box deliveries wherein customers could open and check the packet delivered to them before making the payment.

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But it was later on taken up by many logistic players. "But some features like tracking the delivery boy on Google maps on the company's website have been hard to copy," says Ghadge, who gets new ideas from customer complaints.

Meanwhile, older courier companies like Blue Dart and DTDC, which had six years ago taken Flipkart lightly forcing it to start its own logistics services eKart, are waking up to the e-commerce opportunities. They have either set up separate verticals or have allocated a chunk of resources to cater to e-commerce.

DTDC, for instance, launched Dotzot in June 2013. But the transition from serving only businesses to end-consumers has been challenging. "It requires minute changes everywhere. We have been handling cash for years and that was just 0.1 per cent of our business. But thanks to cash-on-delivery (COD), we have now become a quasi cash-management company," says Sanjiv Kathuria, Co-founder and CEO of Dotzot. Locating residential addresses

in small towns and doing reverse logistics by way of picking up the packet from customer's place back to the e-tailer's warehouse was another complexity to solve.

What next?

In anticipation of growing demand, the start-ups are now busy expanding their network. Delhivery plans to

cover 175 cities by March 2015 and also expand its operations to west and south Asia. ECOM Express now covers 2,000 pin codes and has 42 delivery centres spread across 35 cities in north India. The company now plans to expand to Bangalore and Mumbai and also move south. It had reached Kashmir in July and gets 2,500 to 3,000 orders a day from the region as compared to Gati's average of 2,000 shipments a day.

Start-ups are investing in automation to handle more volumes. ECOM Express has started using robotics sorting technology instead of manual sorting of packages. This will help the company scale up processing from 60,000 to 70,000 packages a day to 1.3 lakh.

The big players too are expanding. They already have a large network and are now spreading to tier II, III and IV towns with more manpower and a fleet of vehicles. Dotzot, for instance, is planning to set up over 200 pick-up and drop-off points for customers in metros. Gati already has a network that covers 16,500 pin

QUICKDEL LOGISTICS (GOJAVAS)

LAUNCHED Late 2011

DELIVERS TO
105 to 107 cities/
2,300-2,500 pin codes

SHIPMENTS A DAY
80,000 to 100,000

CURRENT REVENUE
Not disclosed

GROWTH TARGET
Cross ₹150 crore by March 2015

CAPITAL RAISED: Not disclosed



Team players: (From left) Amit Aggarwal, Head, IT & special projects; Vijay Ghadge; Rehan Alam, Head, network operations; Md. Mohibur, Head, delivery operations

SHEKHAR GHOSH



codes. It has launched Gati Connect that allows sellers to buy branded packaging products on one of its clients' websites. It has also launched secondary packaging services for white goods such as refrigerators.

Most companies are trying to fast become end-to-end service providers. Delhivery offers services ranging from last-mile deliveries, third-party fulfilment, warehousing services and software solutions such as channel integration software for sellers selling across multiple platforms.

Holisol Logistics, which started in 2009, offers warehouse consulting solutions. A year ago it expanded to deliveries. "Logistics is becoming an information management business. Customers prefer to work with a single vendor for logistics, warehousing and fulfilment services for seamless flow of information," says Naveen Rawat, its Director. The company has set up a one-lakh-sq-ft warehouse for Jabong and a 1.6-lakh-sq-ft warehouse for FabFurnish at Jamalpur and Bilaspur in Gurgaon, respectively. The firm offers delivery services for e-tailers like Jabong and Freecultr and offline sellers like Raymond and Biba Apparels.

However, for e-tailers, the priority is good service at the right price, even if that means multiple service providers. "We would prefer outsourcing things to whoever does it the best," says Sinha of Jabong. With the competition between start-ups and traditional courier companies hotting up even at the order level, e-commerce companies have built strong algorithms to automatically allocate deliveries based on multiple criteria such as the logistics company's reach, efficiency in handling payments and customer response.

Growth Pangs

The road ahead, however, is full of challenges for all logistics players. Different tax structure in different states can slow down the pace of growth. For instance, EOM Express has not expanded to eastern states

WHY E-COMMERCE DELIVERIES ARE MORE COMPLEX

B2B Deliveries

- Evening pick-up, morning deliveries
- Time with customer is shorter
- Standard deliveries are documents
- Presence at commercial centres

E-commerce deliveries

- Need to cover Tier II, III and IV towns
- Handling parcels that are bulky or carry valuables
- Deliver round-the-clock
- Time spent with customers is longer, for instance, in try and buy offers
- E-tailers ask for customisation
- Managing huge volumes of cash and remittances to e-tailers
- Need to be present close to populated residential areas

and Kerala. "Until the Goods and Services Tax is in place, this is going to be a grey area in understanding the business model that would work in some states," says Satyanarayana.

Poor infrastructure is another big hurdle. "Unlike other countries, commercial planes required to meet the demands of air cargo are absent. There was logjam at the Delhi airport during Diwali. We had to move cargo to other airports like Jaipur or Chandigarh," he says.

There is also a need for a faster remittance cycle as about 70 per cent of the deliveries are COD. Add to all this the shortage of manpower. "No matter how much companies invest in technology, it is a very people-oriented business," says Rawat of Holisol. Retaining manpower too is tough. "Delivery guys change jobs for a marginal difference of ₹500," says Dhruv Agarwal, Vice President, Supply Chain Management at Gati.

At a time when slow growth could prove to be a killer, capital has also proved to be a big constraint. "You need to expand to not two but 50 cities in a go. That needs loads of capital," says Rawat, who raised \$1.5 million nine months ago from private equity firm Datavision.

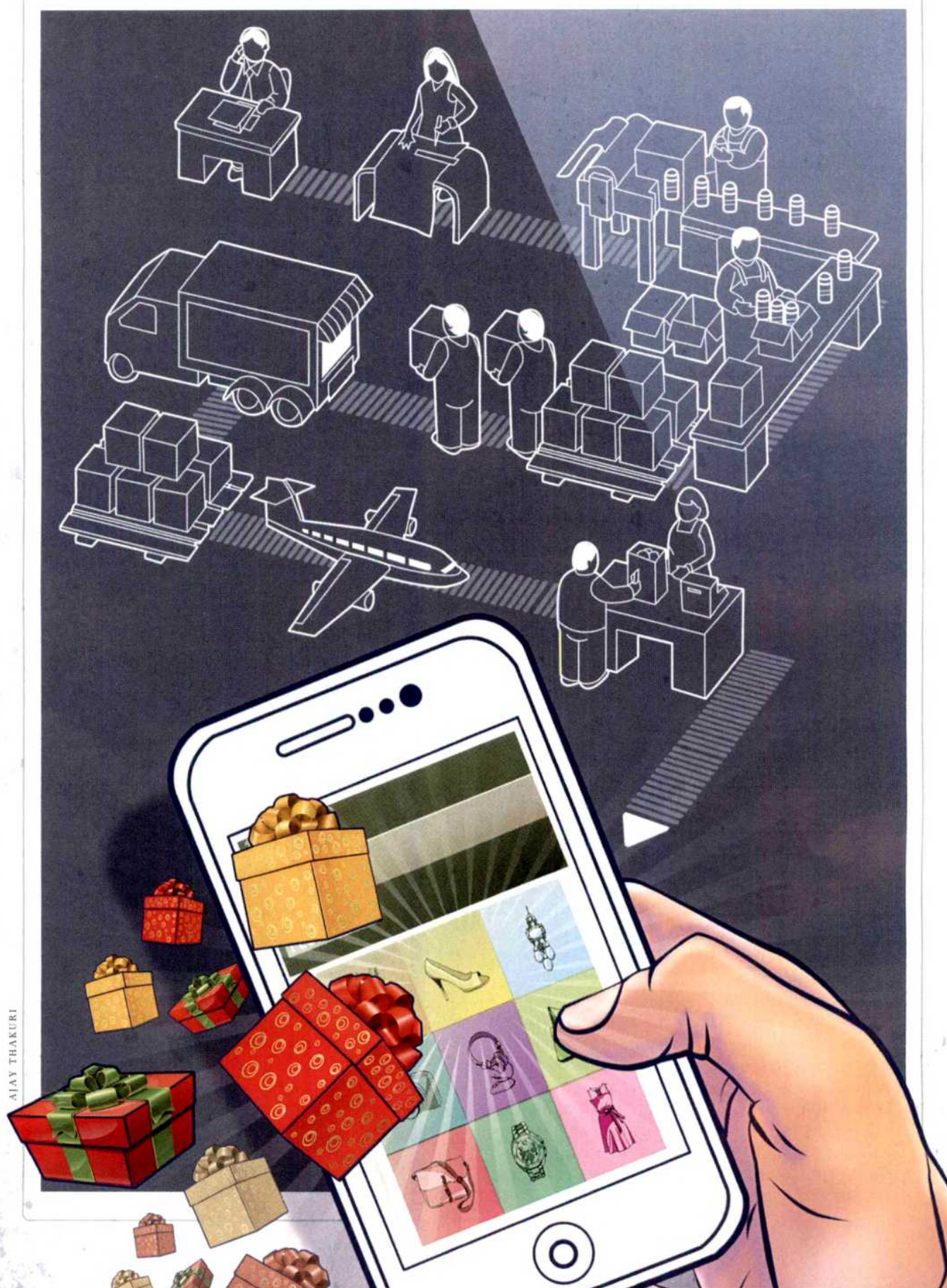
"Given the amount of capital raised by e-commerce companies, logistics firms would need at least \$500 million to \$750 million to match their scale of growth in the next few years," says Barua of Delhivery. "For the bigger companies, the conflict would be whether to invest more capital in expanding their existing business or e-commerce."

While earlier entrants like Chhotu, owned by Santa Claus Couriers, have shut shop for want of follow-on funding and a proper business model, at least two start-ups – Delhivery and ECOM Express – have raised sizeable funding. Delhivery raised \$35 million in Series C round of investment led by private equity firm Multiples Alternate Asset Management in September 2014. In 2013, it had raised \$5 million from Nexus Venture Partners.

ECOM Express raised over ₹100 crore from private equity firm Peepul Capital in September 2014. Delhivery is also open to acquiring new entrants who can offer strong specialisation. "We could look at companies that are specialising in rural deliveries or those offering new products like try-and-buy," says Barua. The firm had acquired offline cash-collection start-up Gharpay in June 2014.

The focus on investments and fast expansion is, however, taking a toll on profitability. While ECOM Express is not profitable yet, Quickdel claims to be so. For biggies, profit is not a worry. "Margins in e-commerce are better by one to two percentage points than our B2B business. We have always been profitable," says Agarwal at Gati. "It has not been like building a brand new business." ♦

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DIGITAL-PHYSICAL MASHUPS

TO CONSUMERS, THE REAL AND VIRTUAL WORLDS ARE ONE. THE SAME SHOULD GO FOR YOUR COMPANY.

By **DARRELL K. RIGBY**

In the early days of the digital revolution, many leaders of established companies did their best to ignore the upheaval, convinced that the threat from new technologies wouldn't ever amount to much. As that premise faltered, many flipped in their thinking, concluding that digital would inexorably destroy their positions. To survive, it seemed, they'd have to stop throwing money at the old businesses, salvage what they could, and launch independent digital ventures. The existing units probably wouldn't survive, but disruptive digital businesses could replace the zombies in a company's portfolio.

Both views proved misguided. The failure of the first hardly needs elaboration: No company can safely ignore the changes wrought by digital technologies. The failure of the second may be less obvious but is now well documented. Companies that milked existing businesses while betting on independent digital start-ups that had no competitive advantages usually wound up discarding decades' worth of physical assets and gambling away millions in real value. Sears Holdings may be the poster child for this kind of miscalculation: Underinvesting in its stores while pouring resources into online ventures, it has suffered a 75 per cent decline in stock price over the past seven years. Similar examples crop up in many industries.

The central problem with either extreme is that it fails to account for how customers have changed: They now weave their digital and physical worlds so tightly together that they can't fathom why companies haven't done the same. Let me relate a personal anecdote that illustrates the problem.

Last December my daughter Stacy wanted to buy the Just Dance 4 video game for her little girl. She found it on

a major retailer's website for \$29.97. To be on the safe side – Christmas was approaching – she decided to go to the retailer's local store and pick it up. There, however, it was selling for \$47.97, a 60 per cent markup. She was surprised, but she remembered the company's price-matching guarantee, so she asked for the online price. No dice, said the cashier – the guarantee applied only to competitors' prices.

"Wait," Stacy said. "I can buy this game online and have it shipped to the store free, right?" The cashier agreed, but cautioned that it might take several days. My daughter replied, "But it's on your shelf now. Can't I just pay for it online and take one from the shelf?" Of course not, was the response: the store and the online operation were separate businesses, and that would mess things up. Standing at the register, Stacy ordered the item on her phone, and a few days later she came back to collect it – another exasperating process.

People experience disconnects like this one all the time. Here we are, a quarter century into the digital revolution, yet many companies still agonise over whether to invest significant resources in digital capabilities. Those that have done so tend to run their digital operations as independent business units – the way companies prefer to manage them, as opposed to the way customers expect to use them.

As the revolution progresses, some companies will go the way of Tower Records, their businesses thoroughly disrupted and destroyed by digital alternatives. But most will find that they must fuse the digital and physical worlds, just as consumers are doing. Look at your own business: Is the physical part of it really going to disappear? Wouldn't innovations that fuse the digital and the physical open up vast new opportunities? And even if some of these "digical" fusions ultimately prove to be 10-

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to 20-year transitions towards further disruption, aren't they still the best way to extend your core business, generate cash to fund continued evolution, and build the capabilities that will be essential for future success?

My colleagues and I have studied more than 300 companies around the globe and have worked directly with hundreds more that are trying to cope with the dazzling but daunting changes reshaping the marketplace. We've found that most industries are still in the early stages of digital-physical transformation (see *Digital's Growing Momentum*). We've also found that the greatest barrier to adopting fusion strategies is not scepticism about their promise but inexperience with their execution. Executives are intrigued by the possibilities and recognise their potential but are uncertain how to make them work.

Not surprisingly, best practices in this area are still emerging. But drawing on our study of leaders from 20 global industries, we have identified five rules that account for much of the difference between success and failure. Some of them are common sense but not commonly practised. Others may sound heretical, at least to

may include proprietary customer insights, distinctive capabilities, and ways to capitalise on a competitor's vulnerabilities.

Digital fusions can leverage a company's existing strengths to provide just such an edge. Consider the case of Commonwealth Bank of Australia (CBA), which started life in 1911 and today operates with 52,000 employees in a dozen countries. When Ralph Norris was named CEO, in 2005, CBA had the worst customer satisfaction ranking in the industry and was losing market share in several important sectors. Like other major banks, it had been trying to reduce costs – and it was perhaps fearful that the Internet would make branch banking obsolete. So it had reduced its branches from 1,756 in 1993 to 1,006 in 2005. The closures not only made it easier for online banks to gain share but also encouraged the entry and expansion of new branch-based competitors, including AHL Investments (Aussie Home Loans) and other non-banking lenders. These aggressive rivals scooped up many of CBA's old branch managers, loan officers, and customers.

THE GREATEST BARRIER TO ADOPTING FUSION STRATEGIES IS NOT SCEPTICISM ABOUT THEIR PROMISE BUT INEXPERIENCE WITH THEIR EXECUTION

the proponents of digital disruption. But the leaders we studied uncovered big growth opportunities while rivals stood by wringing their hands. So it's worth examining what they did and how.

RULE #1

Build your strategy around digital-physical fusion. It can be your new competitive edge.

Some of the world's leading strategy experts have pronounced sustainable competitive advantage dead. They explain that technology now changes so rapidly, and advantages are copied so quickly, that companies must learn to leap continually from one wave of opportunity to the next – even though each new wave will probably be shorter, more crowded, and less connected to the one before. The problem with this approach is that a company may end up throwing away core advantages while pouring resources into risky ventures that have no competitive edge or right to win. To beat the odds, you have to either be very lucky or find some advantage that your core business can provide to the new venture and vice versa. These advantages

Norris began his tenure by touring the branches and studying customer complaints. He found that customers were criticising virtually every touchpoint – they spoke of lousy products, long lines, inept employees, and high error rates. Norris, whose background is in IT, also scrutinised the digital infrastructure. He found decades-old systems that made it nearly impossible for even the best employees to do the right thing by customers.

Norris's vision was to build Australia's finest financial services organisation by excelling in customer service. He set a goal to rise from worst to first in customer satisfaction, linked the compensation of all senior executives to that metric, and focused on five areas for improvement: home loans, deposits, term deposits, passbooks, and customer relationship systems. He also set out to develop the digital capabilities that would make his goal possible, hiring and promoting top-tier IT talent that was committed to his vision. He persuaded CBA's board to undertake a "core banking modernisation" programme budgeted at A\$580 million over four years (and later expanded to A\$1.1 billion over six years). He simultaneously launched a programme to revamp the branch network to improve convenience and service levels.

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COMMONWEALTH BANK OF AUSTRALIA'S FUSION-BASED STRATEGY HELPED PROPEL THE BANK FROM THE LOWEST CUSTOMER-SATISFACTION RANKING FOR RETAIL BANKS TO THE HIGHEST. ITS SHARES ROSE MORE THAN 80 PER CENT FROM MID-2006 TO MID-2014

These efforts produced an impressive succession of digital innovations. The project *Finest Online* modernised CBA's Internet banking service and combined it with in-person channels to eliminate all-too-frequent problems such as an inability to link personal accounts to commercial accounts. CBA's mobile real estate app recognises photos of properties, shows floor plans, helps customers figure out whether they can afford a given house, and starts the mortgage application process. The bank's *Kaching* app was one of the first to allow multiple types of payment from a smartphone, including through Facebook. (The company responds in real time to inquiries on a Facebook wall.) CBA offers online loan approval in 24 hours, as opposed to the 14 to 21 days previously required, and in 2013 it launched *SmartSign*, a service that allows customers to execute loan documents electronically using a secure online portal. It also rolled out videoconferencing to its branches, enabling customers – particularly those in rural areas – to connect more easily with the bank's specialists.

CBA's system is now so firmly embedded that it continues to gain steam even as competitors invest in their own systems and service improvements. Its fusion-based strategy helped propel the bank to the highest customer-satisfaction ranking for retail banks in 2013. CBA's shares rose more than 80 per cent from mid-2006 to mid-2014, compared with a nine per cent gain in the S&P/ASX 200 index over the same period. Most important, the technology platforms, customer-focused culture, and rapid-fire innovation processes that CBA developed in those eight years seem to be taking even longer for competitors to copy.

RULE #2

Add links and strengthen linkages in the customer experience.

Thomas Edison is thought to have invented the lightbulb, but his carbon-filament bulb actually just improved on existing models. Edison's real contribution was to create a system of electric-power generation and distribution that made lightbulbs work.

He figured out every element of the system, set up a kind of idea factory to develop innovations for each one, and commercialised one after another. The results transformed daily life.

Digital innovations are similar. They don't just change a company's existing products or services, as at CBA. They allow companies to identify adjacencies that strengthen the base business and create new revenue streams. Like Edison, a digital-savvy company thinks systematically about each piece of the customer experience. It develops innovative components and weaves them into a holistic system that extends competitive advantages and accelerates growth.

Nike illustrates this approach. For many years it was as firmly rooted in the physical world as any company could be, producing shoes, apparel, and sports equipment to be sold through retail stores. It put up a website in 1996 but declined to sell any merchandise online for three years. In 1999, things began to change, starting with the *NIKEiD* programme. Buyers could visit nike.com and customise certain Nike shoes, choosing their base and accent colours and adding a "personal ID" to the product. Nike then began introducing digital innovations at other points in the customer experience chain. In 2006, it unveiled the *Nike+* app, which connects a shoe that has a built-in sensor and receiver to an iPod Nano. Runners could see data about their time, distance, calories burned, and pace on the Nano's screen or hear it through their headphones. After a workout they could sync the Nano with a computer and chart their progress. They could even get personalised coaching.

Today more than 30 million customers use *Nike+*, tracking and sharing runs, workouts, and fitness goals – and providing the company with invaluable data about who its customers are and what they value most. *Nike+* *FuelBand SE* electronic bracelets take postsale involvement further, measuring all a user's movements throughout the day and recording indicators such as steps taken and calories burned. As with *Nike+*, users can capture this data, track and record their level of activity, and share the information through social media.



The results of all this innovation have been dramatic. Nike enjoys the highest social media engagement with customers in its industry. It has recorded an increased market share in key areas (including Western Europe and soccer – both once dominated by Adidas), a 42 per cent increase in e-commerce sales from FY 2013 to FY 2014, and an overall growth rate that significantly outpaces that of key rivals. And it may be just warming up. “Digital sport is incredibly important to us,” Nike’s CEO, Mark Parker, told CNBC in April 2014. “You’re going to see digital be more and more integrated into other products that we have.” Through its partnerships with Apple and others, he said, the company hopes to expand the reach of the NIKE Fuel system and other applications to 100 million users worldwide.

RULE #3

Transform the way you approach innovation.

When traditional companies add digital features to innovation programmes, their approach typically resembles a waterfall. Marketers and product designers create ideas, build prototypes, and then throw the ideas downstream to IT, with instructions to develop specific digital features. “We’re launching a new product and marketing campaign. We want the mobile app to help us push out marketing messages and coupons and to make it easier for customers to send us

e-mails when they have service questions. The CEO says she needs it in four weeks.”

But another way to fuse the digital with the physical is to start by creating a team of complementary experts. Teams of this sort are not new, but digital innovation requires dramatically deeper and broader integration. Leaders engage digital experts at every stage, from idea generation to development, testing, and launching, and assemble teams for every possible type of innovation project. Their approach generates more wide-ranging, innovative, and integrated solutions, because team members’ combined expertise can fuse the best of the digital and physical worlds in every aspect of the project.

Disney has followed this course since the design of Disneyland began, in 1952. But even Disney’s prodigious digital skills were stretched when the company launched a revolutionary project in 2009. The goals were to create a “more immersive, more seamless, and more personal experience” for Disney guests and to gather real-time data on guest behaviours that would help the company analyse traffic patterns and spending habits, manage labour efficiencies, and optimise the company’s future investment spending. The project would span the entire theme park experience and take in just about every customer touchpoint. Disney decided that the \$1 billion-plus vision was so much bigger than anything its celebrated Imagineering team of designers and product developers had ever undertaken that it required a new kind of organisation. It set up an entrepreneurial unit dubbed Next Generation Experience, which ultimately employed more than 1,000 people from across the company’s functions.

Next Generation’s leaders engaged experts from IT, Imagineering, theme park operations, marketing, and other functional areas. Their first release, the MyMagic+ system, combines digital technology with the three-dimensional theme park: My Disney Experience, a new website and mobile app, facilitates vacation planning and collects information about personal preferences; FastPass+ lets guests reserve attraction and character-greeting times and seats for shows; and MagicBands (RFID wristbands) act as tickets, room keys, FastPass+ verifications, and credit cards, allowing guests to charge meals or souvenirs with a flick of the wrist. The bands also interact with sensors in the park and transmit behavioural information that enables Disney to enhance the guest experience still further. Future applications may include the personalisation of rides and attractions—for example, Winnie the Pooh might greet a child by name and wish him a happy birthday. Thanks to the initiative, Disney is on target to realise some \$500 million in annual incremental revenue with a 20 per cent operating margin. If those numbers hold up, it will earn a healthy return on its billion-dollar investment.

RULE #4

Organisational separation is just an interim step.

The choice between digital disruption and digital transformation has dramatic implications for a company's operating model and organisational design. But those implications may not be apparent at first, because in either case successful innovators typically start by separating their digital revolutionaries from the core business. Separation enables these companies to attract talented innovators and programmers, locating them in San Francisco, Cambridge, Tel Aviv, Hyderabad, or anywhere else they want to be. A specialised capability – one unimpeded by corporate bureaucracy and uncontaminated by old-style thinking – can be built quickly. An upstart culture can challenge the status quo and seek to develop radical innovations. Compensation plans and incentives can be tailored to the needs of the new rather than to the requirements of the old.

But at some point these companies must make a decision. If they are facing digital disruption, they'll leave the businesses separate for a long time – maybe forever. The core, after all, is a rival to be milked and ultimately destroyed. The businesses compete for market share, management attention, and financial resources in a battle to the death. Only one will be left standing. That may be the model Sears chose. Under CEO Edward S. Lampert, Sears has invested heavily in its wholly separate e-commerce business; one Credit Suisse analyst has said, "[Its] website is better than [that of] just about any other retailer I cover." Online sales have grown steadily, and by late 2013, they were about \$1.2 billion a year, according to analysts. But the company's underinvestment in brick-and-mortar has been significant. In 2012, for instance, Sears spent an average of \$1.46 per square foot on its stores, compared with the average of \$9.45 per square foot spent by four of its chief competitors, according to the *New York Times*. Online sales account for only about 2.5 per cent of total sales, which have declined steadily since 2007; e-commerce revenue can't possibly grow fast enough to replace lost revenue from the stores.

Digital-physical transformations have different objectives and thus different operating models. The initial aim is to acquire digital skills as strong as those of any pure play disrupter. But the ultimate goal is to create the best of both worlds, developing capabilities that pure plays will be unable or unwilling to copy. So separation is a transitional step; over time the company will want to build at least some integration, which has advantages of its own: It satisfies customers' wish for a seamless digital-physical experience, enables greater efficiency and economies of scale, and permits better coordination, avoiding duplicated effort. It also facilitates timely communication and execution of decisions, thus reducing conflict. An in-

tegrated business can leverage existing company assets in ways that a separate unit cannot.

This kind of fusion is working well for Macy's. As early as 2005 the company was devoting considerable resources to website and infrastructure capacity, and in 2010 it mapped out an "omnichannel" strategy – a long-term plan that included a host of initiatives designed to create seamless customer experiences both online and in stores. Finding that customers who used both channels to shop were five times as profitable as those who shopped online only, Macy's invested heavily in its iconic Herald Square store in New York City and hundreds of others as well and began integrating them with its online business. It has turned virtually all of them into omnichannel fulfilment centres: Customers can order online and pick up their items at a local store. The Herald Square store is undergoing a \$400-million renovation and will feature interactive directories, the widespread use of RFID tagging to track individual items, and a mobile app to guide customers as they shop. Sales associates equipped with mobile devices will be able to summon shoes from the back room without ever leaving the customer.

Organisational changes reflect Macy's growing integration. In January 2013, for example, Robert B. Harrison, previously the executive vice president for omnichannel strategy, became the first chief omnichannel officer, reporting to CEO Terry Lundgren. He also joined the company's executive committee. As he continued to manage the development of strategies to closely integrate stores, online, and mobile activities, Harrison assumed responsibility for systems and technology, logistics, and related operating functions.

Macy's digital fusion has been great for its financial performance. Total sales have grown by \$4.4 billion (19 per cent) over the past four years, and the company recently reported a fifth consecutive year of double-digit earnings growth. Its stock rose steadily from 2010 to 2013, increasing by 43 per cent in 2013 alone (compared with a gain in the S&P 500 of about 30 per cent).

RULE #5

Build a digital-savvy leadership team that includes the CEO.

If digital technologies are expected to supplant the core business, the CEO's primary task is to change the mix of businesses, not the fundamental capabilities of people within them. This kind of corporate evolution is much like biological evolution: Individual organisms don't change, but the population evolves as superior species destroy less adaptable ones. The CEO encourages the physical business to keep up the good fight and siphons money to the new ventures on which the company's hopes are pinned.

CEOs who lead digital transformations face a more complex task. They must change not only the mix of businesses but also the capabilities of people in and around those businesses – including themselves, their board members, their executive teams, and the operating organisation. Appointing a chief information or technology or digital officer (titles vary, but it's a common solution) may be helpful but isn't sufficient. And it will be harmful if it creates the illusion that the new executive will handle digital capabilities and no one else need get involved.

Typically, digitally challenged CEOs are unaware of the extent of their ignorance and have a hard time hiring tech-savvy people. They also have a tendency to starve digital investments, encourage bad ideas, and kill good ones (or at least demand multiple rounds of improvements). But a growing number of CEOs are strengthening their grasp of the issues. They join the boards of digitally advanced companies. They spend more time with technology experts – venture capitalists, high-tech start-up teams, professionals in their own organisations. They read about digital topics, take online courses, acquire mentors, and play with the technologies their customers use. They also invite technology leaders onto their boards and launch “no executive left behind” programmes to ensure that every leader in the organisation accelerates his or her digital training. CEOs needn't learn to write code, but they should understand why technology is important and how it can transform businesses and functions in the company portfolio.

The remarkable makeover of Burberry, the august UK-based clothing company, demonstrates some of the possibilities. (See “Burberry's CEO on Turning an Aging British Icon into a Global

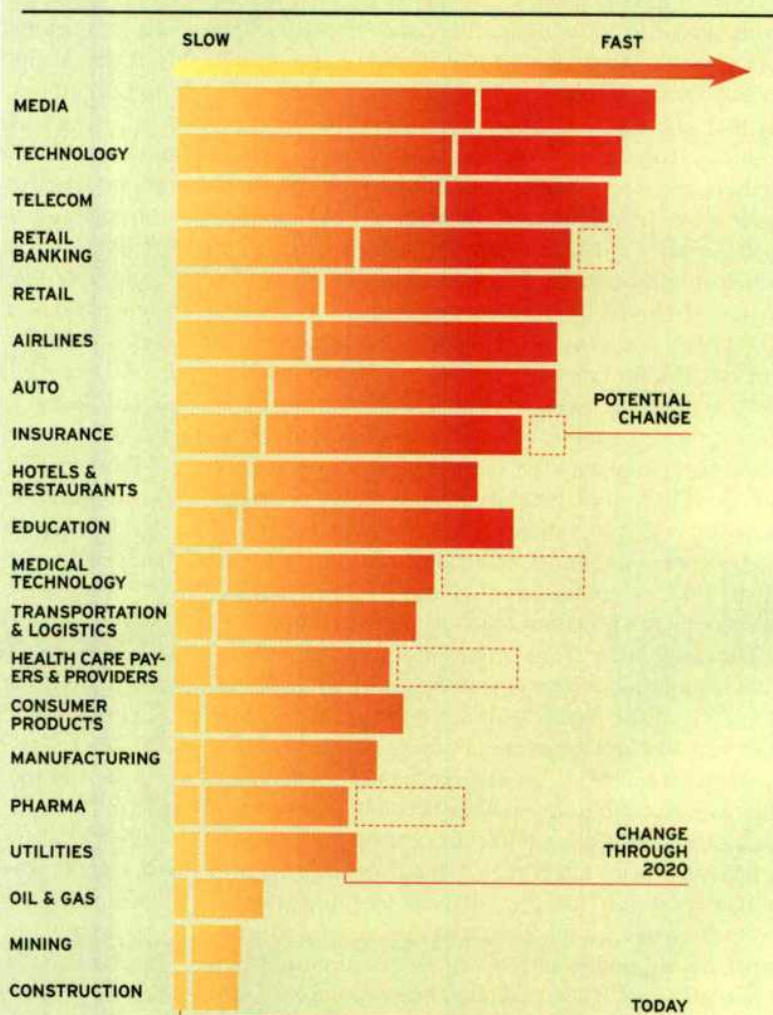
DIGITAL'S GROWING MOMENTUM

“Digital” (combined digital and physical) innovations will hit some businesses much harder and faster than others, so a key first step is to assess your company's environment. How much has the ongoing transformation already changed your industry's offerings and competitive dynamics? How much is it likely to do so in the next several years? The figure below captures Bain's assessment of digital transformation for 20 industries. You can see at a glance some of the key findings:

The range of impact is wide. Change has been several times as extensive in media, technology, and telecom as in oil and gas, mining, and construction.

The biggest change is yet to come. The next several years will bring far more innovation to most industries than they have seen in the past. Airlines, automobiles, and insurance, for instance, are on the verge of far-reaching digital transformations.

Wild cards can affect the pace of change. Some industries will be held back by external factors. Medical technology and health care, in particular, won't evolve as quickly as they otherwise might, owing to regulations, reimbursement practices, and liability issues.



Source: Bain

ANDY DUNN, THE CEO OF BONOBOS, SAYS, "WE WERE WRONG AT THE BEGINNING. IN 2007 WE SAID, 'THE WHOLE WORLD IS GOING ONLINE ONLY. ALL WE'RE GOING TO DO IS BE ONLINE.' BUT WHAT WE'VE LEARNED RECENTLY IS THAT THE OFFLINE EXPERIENCE OF TOUCHING AND FEELING CLOTHES ISN'T GOING AWAY"

Luxury Brand," *HBR*, January-February 2013.) When Angela Ahrendts took over Burberry's top job, in 2006, the brand had begun to turn itself around but was struggling to catch on among younger shoppers. Ahrendts brought a new vision. She believed that Burberry should explicitly target previously neglected customers – millennials – and speak to them in their mother tongue: digital. She hired a fresh marketing team, most of its members under 25, and launched innovations such as the hugely popular Tweetwalk, which showed backstage pictures of Burberry's collections before the runway show. She also created a new partnership at the top, including herself; the chief creative officer, Christopher Bailey; and the chief technology officer, John Douglas. She established a "strategic innovation council" and staffed it with what she viewed as the youngest and most forward-thinking directors in the company. The council developed digitally immersive physical experiences – live streaming of runway shows, video content on giant screens, digital mirrors that turned into screens displaying catwalk scenes – that made store customers feel like they were stepping into a digital "Burberry World." Store merchandise carried RFID tags, so a customer picking up an item could instantly see product information and marketing materials on a screen. This digital strategy contributed to a significant increase in share price: From the time Ahrendts arrived to early 2014, shortly before she left, Burberry's stock more than tripled, while the FTSE 100 index rose roughly 19 per cent.

The Digital Future

Digital innovations are propelling leading companies in a growing range of businesses. The Ford Fiesta outsells competitors partly because of the company's pioneering Ford Sync technology; more than half of Fiesta buyers say Ford Sync was a major reason for their purchase decision. Delta Air Lines was bankrupt in 2005 and rated last on *Fortune*'s list of most admired airlines in 2007, yet it is highly profitable and number one on the magazine's list today. Among the many reasons for this improvement may be Delta's sizable investments in digitally augmenting the physical aspects of flight. Its

Fly Delta app, for example, not only provides information about flight itineraries, airplanes, and airports, but also lets passengers record their parking spots, check in, change seats, retrieve boarding passes, pay for excess baggage, track checked luggage, and view the ground under the plane (with Glass Bottom Jet). The immensely popular app had been downloaded an estimated 11 million times as of April 2014.

Perhaps the surest sign that digital technologies are transforming physical businesses rather than annihilating them is the growing number of digital companies that are themselves moving towards digital-physical fusions. Two early pioneers of online trading – E*Trade and TD Ameritrade – have invested in physical branches. Google, which started life as purely a digital search engine, is now producing smartphones and tablets and smart glasses; it has also been building driverless cars, acquiring robotics companies, laying physical fibre, creating delivery services, and moving into connected devices within the home. Digital retailers such as Warby Parker and Bonobos are launching physical stores. Andy Dunn, the CEO of Bonobos, says, "We were wrong at the beginning. In 2007 we started the company, and we said, 'The whole world is going online only. All we're going to do is be online.' But what we've learned recently is that the offline experience of touching and feeling clothes isn't going away."

A digital lens will change how people perceive and manage nearly every activity in life and business. Try using it. Pick apart your customers' experience chain to understand how digital technologies apply. Combining the physical and the digital promises to transform nearly every element of nearly every industry, including yours. ♦



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COLUMN SANJAY GUPTA

It's About Company Culture

BYOD's biggest bugbear, security, can be tackled by managing identities and applications on the device. And through trust

Ask businesses to name their biggest concern around Bring Your Own Device (BYOD) and the answer is clear: security. Indeed, a recent Oracle survey of senior security decision makers revealed that a majority – 38 per cent – cited device security as one of the top worries they have when it comes to BYOD.

This focus on device security may stem from the fact that many large businesses still have deep roots in old ways of running enterprise IT. Such organisations are used to IT having complete control over the devices that their employees use. As security is also mandated and controlled by IT, businesses can, therefore, have a reasonable expectation that their sensitive data is secure.

For such organisations, BYOD can be a daunting prospect. The idea of allowing employees to use their personal devices at work is revolutionary, and as with any revolutionary idea, it will take some time to be accepted fully.

The issue is that some businesses are using concerns over device security as an excuse for not investigating seriously what BYOD could do for their businesses. All too often devices, and device security, are being used as a scapegoat for regressive and counterproductive IT policies.

To Do Nothing Is Not an Option

The major flaw with this position is that

employees are already using their own devices at work, regardless of what their businesses' official policies on BYOD are. Indeed, as mobile devices become ever more powerful and the 'Gen-Y' demographic comes into the workplace, an increasing number of people are going to use their devices at work.

Businesses, therefore, have a clear choice to make: address the security challenge of BYOD now and start enjoying the benefits it brings; or keep delaying it until such a time when it may be too late.

For those businesses that choose the former path, the key to success lies in one fundamental characteristic of BYOD security: it is about much more than simply locking down the device. Device-centric approaches to security (such as mobile device management) can only ever solve the problems businesses have today – they do not provide a scalable, flexible way of securing the enterprise for the new world of mobility we are entering.

Instead, a true BYOD strategy is based on two foundations: the right company culture within the enterprise and a robust, enterprise-wide take on security that is capable of securing the enterprise today and well into the future.

A Question of Trust

When it comes to company culture, BYOD will only flourish in companies where trust is absolute. Business executives need

to be able to have complete confidence in their IT department and the technology framework they have in place to secure employee devices. Employees, meanwhile, need to rest assured that their device cannot compromise the enterprise and that, conversely, their own private data cannot be viewed by anyone in the business.

This is a two-way street of course.

In business, trust is never given freely, it is always earned. In the case of BYOD it clearly must be earned through a robust security framework. The good news for businesses is that BYOD security does not need to be a leap into the unknown. Nor does it need to involve investing in new, unproven niche security 'solutions'. Instead, it can be built on that stalwart of enterprise security: identity management.

Bringing Enterprise Security to the Device

Identity management allows organisations to simplify identity lifecycle management (that is, who can access what part of the network and for how long) and secure access from any device for all enterprise resources – both within and beyond the firewall.

The key words here are 'any device'. In essence, identity management allows organisations to easily extend the enterprise security layer to wherever the employee needs it to be extended. At a stroke, businesses will be able to trust BYOD devices every bit as much as corporate-owned ones due to the fact that the same robust authentication, sign-on and authorisation processes are used.

There is a little more to this, of course. If businesses and employees are to truly trust the use of personal devices in the workplace, there needs to be a strict separation between personal and private data. This is where mobile device management (MDM) reaches the limits of its usefulness. MDM is great for securing information and hardware on a device, but it lacks finesse, securing everything and anything that happens to be on the device.

In the case of BYOD, this poses some problems. What, for example, happens when an employee loses her device, or leaves the company? With MDM eve-

rything on the device – including her personal data – would be wiped out. It is the nuclear option. This means that employees can never really commit to BYOD. They cannot trust in the security solution in so far as it imperils the data that arguably means most to them: their own.

Locking Down Applications

Due to this, mobile application management (MAM) is fast gaining currency. MAM delivers a secure container for application security and control that separates, protects, and wipes corporate applications and data. Crucially it secures corporate data only: the employees' personal data and applications are completely separate and unaffected by what goes on inside the enterprise container. This means that they can trust in the fact that none of their data will be wiped out by the

Businesses have a clear choice to make: address the security challenge of BYOD now and start enjoying the benefits it brings; or keep delaying it until it may be too late

business and that the business cannot accidentally see what they are doing with the device in their private lives. In short, MAM provides the peace of mind that employees want to be able to use their own devices at work. They know the company data is secure and they know that their data is separate.

BYOD is an unstoppable force. Employees are going to use their devices at work regardless of whether you want them to or not. The key to securing the enterprise in this new world is to embrace a more holistic attitude to security that focuses on applications and identity. With this approach, businesses can rest assured they are protected regardless of the device used. ♦

The author is Vice President of Fusion Middleware Business at Oracle India

LAST BUT NOT LEAST

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A WINDOW TO THE FUTURE

The CES 2015 showcased revolutionary consumer technologies ranging from connected cars to virtual reality. By SIDDHARTHA SHARMA

Mercedes-Benz rolls into CES with its "F 015 Luxury in Motion", a concept car in which the man behind the wheel has become a mere option



The International Consumer Electronic Show (CES), held in Las Vegas every year, is the tech world's gathering place that showcases latest innovations in consume technologies. For more than 40 years, CES has been the global stage for tech firms to introduce their next generation innovations. In its 2015 edition, more than 3,600 exhibitors, including manufacturers, developers and suppliers of consumer technology took part. And fortunately what happens in Vegas does not necessarily stay in Vegas. Here are the top trends for this year:

4K Ultra HD

India is still far from full 4K television revolution and the problem lies in content. But tech companies are sure that 4K is here to stay. The day is not far when manufacturers will stop making 1080p televisions below

the idea of curved display and 4K ultra HD beautifully. Sony and Sharp stuck to the flat display panels but reduced the thickness of the television. The new 4K ultra HD TVs from Sony and sharp are so thin that you can cut a Pizza into perfect eight slices. With major manufacturers backing the 4K revolution, this trend will lead the path for future displays.

Connected Cars

The biggest gadget that one can own is a car. And when an automobile starts thinking on its own, it's an altogether different world. At Las Vegas Convention Centre's North Hall one could only find smart and connect cars. Global auto giants like Ford, Volkswagen, Mercedes, Audi, Hyundai and Toyota showcased what was their idea of a connected car. The range varied a lot from self-driving cars to self-parking cars and cars with voice recognition. But all this is futuristic.

Ford has come up with came out with Sync 3.0. In India it had launched Sync in their EcoSport and then Sync 2.0 with App Link in the Fiesta. Ford's developer programme also showcased how mobility challenges world over can be met. It is focusing on India too in its bid to solve major mobility challenges in congested cities like Mumbai, Bangalore and New Delhi. App link provides mobility solution apps for drivers along with voice recognition so that the driver is not involved with the infotainment and can concentrate on the road. Another connected car at the CES 2015 was the Volkswagen self-parking car. The electric Volkswagen hatchback can memorise the track from driveway to parking and the driver can just with a tap on their smartwatch park their car. Even tech companies like Panasonic were all geared up with their connected car solution. The company was seen incorporating Apple CarPlay and Android Auto into its hardware in the dashboard units of cars. Though the self-driving cars



LG and Samsung have reposed their faith in the curved OLED display

55-inches, opting for 4K Ultra HD TVs only in the larger category. Lower pricing of these 4K Ultra HD are also expected this year.

The 3840 x 2160-resolution revolution has started and India is also on the map. Manufacturers like LG, Samsung, Sony and Sharp showed what all can still be done to the mother of all screens. LG and Samsung still showed faith in the curved OLED display and they married

IMAGE COURTESY: CES



SIDDHARTH SHARMA

The self-driving cars from Mercedes and Audi were the stars of the show but they are still in the concept stage.

from Mercedes Benz and Audi were the stars of the show, they are still in the concept stage. In the immediate future, connected cars from Ford and Volkswagen make much more sense.

Internet of Things

We live in a very connected world. But just about five years ago automated homes were just a concept. Everything that you can see around you is connected to your smartphone via technology. This has led to the idea of Internet of Things (IoT). From refrigerators to home lighting, security cameras and home entertainment, everything is now connected.

Samsung and Panasonic showcased the idea of smart-living at the CES 2015. Plenty of software companies were seen vying to be the next big platform in the "Internet of Things". This trend will grow with Apple's home kit and Google's Nest being the key drivers.

Virtual Reality

After Facebook acquired Oculus Rift, it was expected that tech giants will venture into the field of Virtual Reality

(VR). Companies like Samsung and Google showed how easy it is to transform a smartphone into an immersive VR environment. The modern smartphone has cameras and some even have 3D imaging technology. Samsung has integrated the Galaxy Note 4 into their virtual reality tech solution. Software makers and even filmmakers evinced interest in VR.

Smartphones

It is a fact that innovation in the smartphone segment has saturated,

Samsung and Google showed how easy it is to transform a smartphone into an immersive VR environment



but CES 2015 saw product launches. LG showcased G-Flex2. A smartphone with curved display and a self-healing back panel, it is scratch resistant.

It is the first Android device with the Qualcomm Snapdragon 810 processor and 2.0GHz 64-bit Octa-Core CPU.

It also has a MicroSD card slot that supports cards up to 2TB. Asus announced Zenfone 2, its next generation of mid-range Android smartphone, in India at the CES 2015. The phone is 3.9-mm thick at the edges, features a 5.5-inch full HD IPS display, has a 64-bit 2.3GHz Intel processor, and runs on Android 5.0 Lollipop.

It has a 3,000-mAh battery that Asus says charges from 0 to 60 per cent in 39 minutes. Asus also launched updates to their Zen UI with emphasis on increased personalisation and security.

The writer is a technology journalist and a television presenter with Headlines Today for its weekly technology show Gadgets And Gizmos. The author attended the event at the invitation of Ford India

OFFBEAT GADGETS

While we await the arrival of mainstream gadgets based on these technologies later this year, here are some products that caught our attention at the CES 2015 in Las Vegas. By NIDHI SINGAL

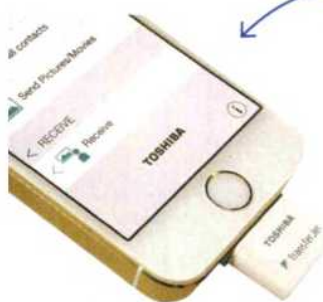


Avegant Glyph personal theatre headset

An interesting accessory in the virtual reality space came from Avegant. The Glyph looks like a normal, over-the-ear headphone that can be flipped down to experience the virtual retinal display. It seamlessly switches between audio and video mode. According to Avegant, the Glyph has been designed in such a way that it holds the aesthetic of current headphone technology, while integrating next generation optics for a premium video experience. Priced at \$599, it can be preordered later this year.

Sony FDR-AX33

Sony has pulled the wraps off its 4K Handycam, which the company claims is the 'most compact' of its kind till date. This new camcorder features Balanced Optical SteadyShot (B.O.SS) image stabilisation and 4K 100 Mbps high-bitrate recording. There is a manual ring as well as button to customise the needs of a videographer. There is also a three-inch LCD and an electronic viewfinder. The 4K video content shot with this camcorder can be played directly on a compatible 4K TV. It can also trim 4K images from the video frames.



Toshiba TransferJet

This adapter for smartphones, PCs and tablets offers direct data transfer of up to 560 Mbps between two devices. Toshiba has come up with a dongle for iOS devices, the Lightning port, 2nd generation USB adapter for Windows, and

microUSB adapter for Android devices. Connecting TransferJet to compatible devices, launching its app, selecting files and then touching the two adapters together initiates high-speed data transfer. It is ideal for wirelessly transferring high resolution images, videos, etc. Priced at \$79.99, it will go on sale in March.



Netatmo Welcome

This is a stylish camera that recognises the faces of your loved ones and sends their names to the smartphone. It is a compatible app, and by using it, one can check who all are currently at home by accessing live stream and even past events. Welcome also notifies if it sees an unknown face.

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YUREKA FOR YOU

Micromax is the latest entrant in the "exclusively available online" smartphone space. By **NIDHI SINGAL**

Micromax has dominated the entry-level and mid-segment smartphone space for quite some time. The company has now entered into a partnership with Cyanogen, Inc. for its new range of smartphones, YU. The first phone in the offering Yureka also marks Micromax's entry into the "exclusively available online" space as it will only be available on *Amazon.in*.

Design and display: The Yureka has got a 5.5-inch touch display with a 1280x720p resolution. Its front is neat, with three physical touch keys below the display. There is a 'YU' branding at the rear, with no mention of Micromax. The phone is sturdy and comfortable to grip with one hand. The rear has got a rubberised finish. The videos and images appeared crisp and sharp.

Operating system: The Yureka runs on Cyanogen OS

11 based on Android KitKat (v4.4).

Specifications and performance: The Yureka is powered by 1.5 GHz octa-core processor on Qualcomm Snapdragon 615 (64-bit) chipset and is paired with 2 GB of RAM. These specifications did decently well on the benchmark tests. I was easily able to switch between multiple running apps. The heavy graphic apps and games loaded quickly and ran without any lag. However, while playing with the themes, the phone froze a couple of times. Other than the default apps, there is a YUniverse app that allows one to save websites for easy access, and discover news stories.

Camera: The 13 MP camera is a big plus for the Yureka, especially when one considers its price. The images captured with auto focus were impressive. They were sharp and the colours looked rich. However, when moved indoors, the images lacked sharpness. The Yureka can capture videos at a decent 1080p resolution. It also packs in a 5 MP front-facing camera for capturing selfies.

Battery: The 2500mAh battery onboard is just about average. With heavy usage, including hours of browsing, gaming, social networking, camera clicks and calling, the phone died before the end of the day. If used wisely, however, it can last a day. ♦

@nidhisigal

BAG IT OR JUNK IT:

At ₹8,999, it is one of the best Android smartphones under 10k

RATING: 4.5/5

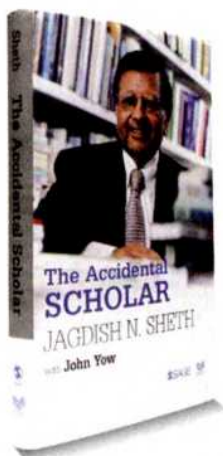
PLUS: Price, Cyanogen 11

MINUS: Battery



Such a Long Journey

Sheth's book is a candid account of his life from a studious Marwari child to an authority on consumer behaviour and marketing



The Accidental Scholar

By Jagdish N. Sheth
with John Yow

Pages: 296 (Hardcover);

Price: ₹695

Sage Publications

Jagdish has not only showered praise on many but also recorded with unbridled dislike, the things and people that bothered him

In my view, autobiographies are generally boring. So I try not to read them unless they are of personalities like Mahatma Gandhi or Nelson Mandela or some such awesome person. But Jagdish is an old friend. So out of curiosity I decided to read *The Accidental Scholar*. The book traces the journey of Jagdish Sheth, one of the world's leading authorities on consumer behaviour and marketing.

It records incidents from his childhood in Chennai in a rather large Marwari family. Through a series of decisions that were made for him, he was able to complete his schooling, pursue his college education and move to the US for his Masters and Ph.D. The rest, as they say, is history. That should put the book's title in the right perspective.

Many things work in favour of the book. For starters, the prose is very tight. The narrative is lucid, clear and hearty so that you don't get bored with reading the chronology of events as they unfold. Secondly, Jagdish has recorded the personal milestones alongside the professional ones. Some of these personal anecdotes are quite hilarious and admittedly make for lighter reading in the middle of serious academic content, thereby retaining the reader's interest.

The third plus in Jagdish's favour is the 'lessons learnt' portion at the end of each chapter, which succinctly captures the essence of each chapter and creates a practical 'take-away' for the reader. The fourth point that I especially enjoyed is the candidness with which the book has been written. Jagdish has not only showered praise and admiration on many but also recorded with unbridled dislike, the things and people that bothered him.

The book chronicles very effectively not just the life of Jagdish Sheth, but also the environment that he was part

of. The reader gets glimpses of pre-Independence Chennai, USA of the 60s and 70s, the socialist movement in Kolkata in the late 60s, the student uprisings in the US against the Vietnam war, the research and development-oriented academic atmosphere in the US, the cultural upheavals in both countries and the impact of the Internet.

Jagdish has given the reader a picture of the shift in the life and living habits of people from the late 60s to the present in India and in the US. In fact, as a person who also lived the American dream (I did pretty much the same things that he did although I planned to be a scholar and my area was accounting), the book resonates with 'me' since I am able to also understand and appreciate the years of hard work and the euphoric sense of achievement. The US is by no means an easy place, but it is a place where hard work is rewarded, skill and talent appreciated and opportunities commensurate with merit do literally knock on your door. Success is directly proportional to effort and there are no hidden variables in that equation. That is perhaps the lure of the land even today. This aspect has been beautifully captured by Jagdish in his book.

In conclusion, the book is a decent read. It does not bore you with technical details that one would normally associate with an autobiography. It summarises the extraordinary journey of an ordinary man who may have perhaps been manufacturing and selling jewel boxes in Chennai's Sowcarpet, had fate (and his brother) not intervened! ♦

BALA V. BALACHANDRAN

(The writer is J.L. Kellogg Distinguished Professor of Accounting & Information Management (Emeritus in Service), Northwestern University and Founder, Dean and Chairman of Great Lakes Institute of Management, India)



INTERVIEW WITH JAGDISH SHETH

Known for his seminal work on buyer behaviour and relationship marketing, **JAGDISH SHETH**, Charles H. Kellstadt Professor of Marketing at the Goizueta Business School of Emory University, Atlanta, was in India to launch his autobiography *The Accidental Scholar*. He spoke to **SHAMNI PANDE** on many topics, including the key influences in his life, about India and important trends, and the significance of the government's *Make in India* campaign. Edited excerpts of the interview:

What made you write your autobiography now?

I have had such fascinating encounters that I was joking about writing a screenplay about the Americanisation of 'Jag', my nickname. The day I landed here I went to buy a formal white shirt – till then all my shirts were rather colourful – and like any other Indian started bargaining. It was unheard of in the US in the 1970s. But that is today being accepted here. I also have a lot to share about the people I have been fortunate to have worked with.

Who are the people who have inspired you?

I first studied about Abraham

Harold Maslow's [US psychologist] 'Hierarchy of Needs' in my MBA behavioural class. I just

loved it; motivations of people have always fascinated me. I applied the same theory on how institutions go through a similar path of evolution. Take religion. When people struggle to survive, they pray, it then moves to love and affection. As the society and economy evolves, this moves to self-esteem and independence, and eventually it gives way to self actualisation.

This behaviour also manifests at the workplace where organisations move from being feudal to providing a platform to employees for self-actualisation. My interpretation was well-received, including by Maslow himself. I even applied this to the evolution of Communist vis-a-vis the capitalists. In this context I would also like to mention about my mentor Professor John Howard with whom I co-authored the book on buyer behaviour. Peter Drucker's ability to forecast the future has always inspired me.

What's your view on the 'Make in India' pitch?

It has a strategic intent. The world is looking for an alternative to China and companies would want to de-risk their reliance. It could also involve a foreign company making/manufacturing here for elsewhere. This does not compete

with domestic industry and has the potential to give us technology or know-how, the way China learnt from these firms.

But is manufacturing the answer?

India is resource rich. Way back in 1800s David Ricardo had suggested that nations should concentrate on their comparative advantage. An idea where the British Empire did not focus on producing cotton, but sourced it from India and the US. British mills made textiles that were again sold back to these countries at a premium. India missed the bus when the US wanted India to manufacture; India refused then, influenced by its Non-Aligned Movement. China, however, embraced manufacturing. Today, India is a service-driven, growing economy that is labour-inflationary. We need more skilled labour. Service is not exportable. Be it for service or manufacturing, it needs infrastructure.

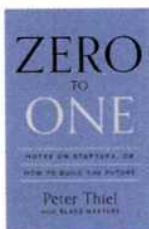
Do you see relationship marketing undergoing a sea change?

The principle of connection and building a relationship does not change with the change in the platform. If you look at the companies and brands, the successful ones have built that connect with the local community. I call them the 'firms of endearment'. In India, take the case of Tata, Murugappa Group and Hindalco. Wipro's Azim Premji has sought to do the same.

TOP THREE BESTSELLERS*



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By Navi Radjou
Random House
Price: ₹499



Zero to One
By Peter Thiel, Blake Masters
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*For the week ended January 4; Source: Crossword Bookstores

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Description: Experience in preparation and execution of test strategy, test plan and test specifications.



Cyient Limited
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Job ID: 16308390
Description: Should have good technical skills in Cramer, OSS for at least 6 years.



Tesco Hindustan Service Center
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Location: Bengaluru / Bangalore
Job ID: 16096410
Description: Manage all aspects of the end to end Build, Release Deploy process, Ensures teams follow the organisations established policies and procedures.



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Location: Mumbai
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Job ID: 15695624
Description: Responsible for following up on all sales orders to ensure they are processed accurately within the financial software and the customer is sent their invoice on time.

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NTTF
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Location: Bengaluru / Bangalore
Job ID: 16305047
Description: Re -Conciliation of bank, Calculation of TDS and Service tax in Tally package, Entry of payment Received and Paid, Maintain of all documents, Payment of All bills etc.

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adept

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CRY-Child Rights and You
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Arvind Panagariya
Vice Chairman, NITI Aayog

Rewriting India's *Niti*

It's only apt that someone who first mooted the idea of replacing the Planning Commission is appointed to lead the institution that replaces it. **ARVIND PANAGARIYA** is an outsider to Lutyens' Delhi and yet the ultimate insider to lead NITI Aayog [NITI is short for National Institution for Transforming India] that will take Prime Minister Narendra Modi's vision of cooperative federalism forward. The usually reticent and disarmingly humble Panagariya has been vociferous in supporting a free-market model of development for India. A strong, vocal supporter of Modi, he has also been advising states like Rajasthan and Gujarat on labour reforms and land acquisition.

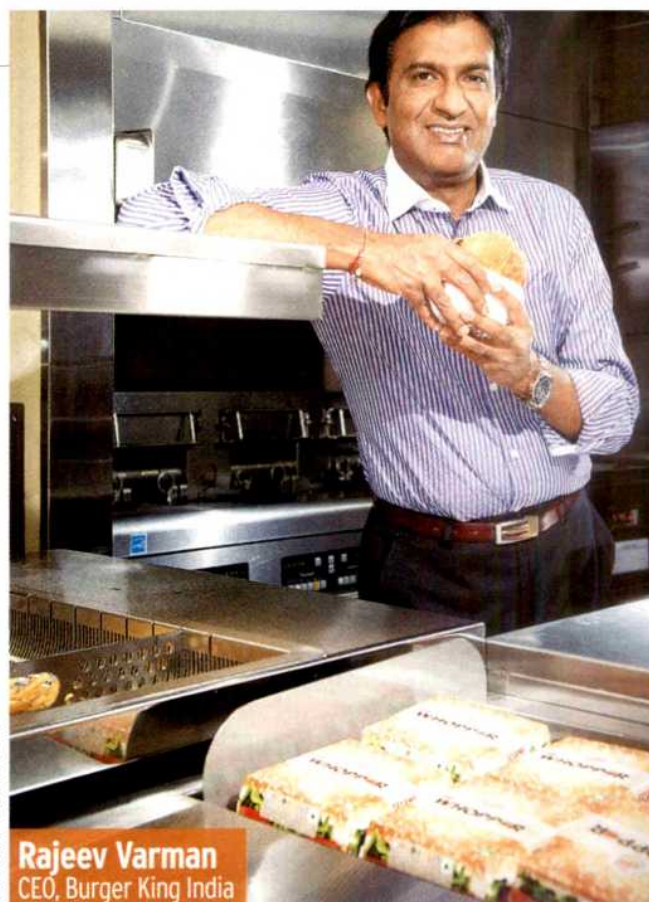
SHWETA PUNJ



Slow But Sure

He tried his first Burger King burger more than a decade ago, and now **RAJEEV VARMAN** is overseeing the setting up and expansion of the world's second-largest burger chain in India. Instead of bringing in a ready menu to the country and then making changes to it, Varman and his team created the menu from scratch. "We did so many tastings, so many iterations... One day I tasted 19 burgers," he says. Varman expects the learning process to continue in India where Burger King faces stiff competition from rival US chain McDonald's. "The important thing is to get the first 12 restaurants [in New Delhi and Mumbai] off the ground. Then I would like to put a small pause. I would like to study," says Varman. "We do have long-range plans, but I think that pause is important because it will [give us time to] readjust some things we do and also confirm that we're on the right path."

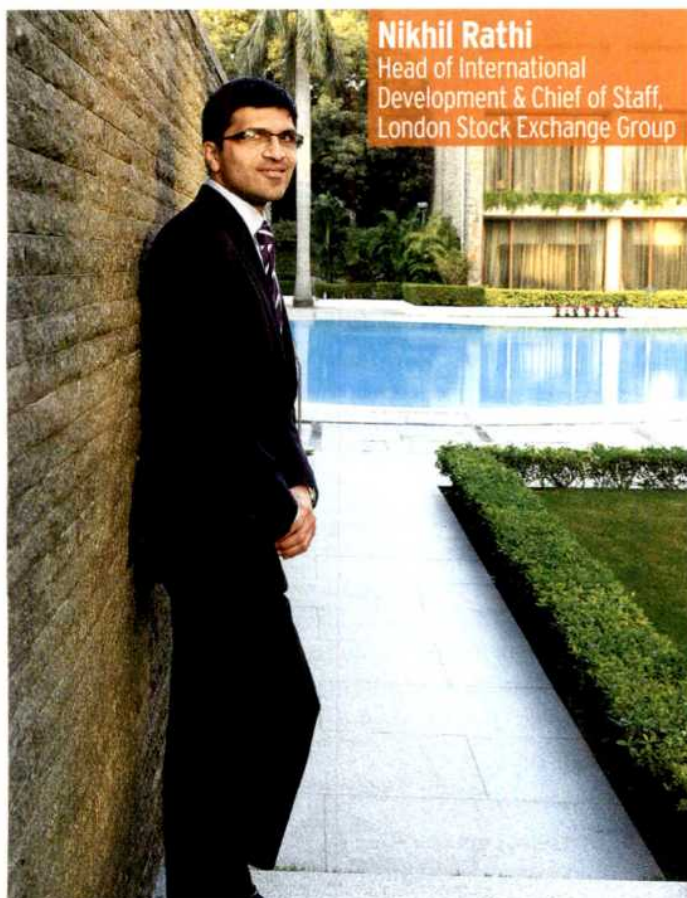
ARPITA MUKHERJEE



Rajeev Varman
CEO, Burger King India

RAJCHIT GOSWAMI

SHEKHAR GHOSH



Nikhil Rathi
Head of International
Development & Chief of Staff,
London Stock Exchange Group

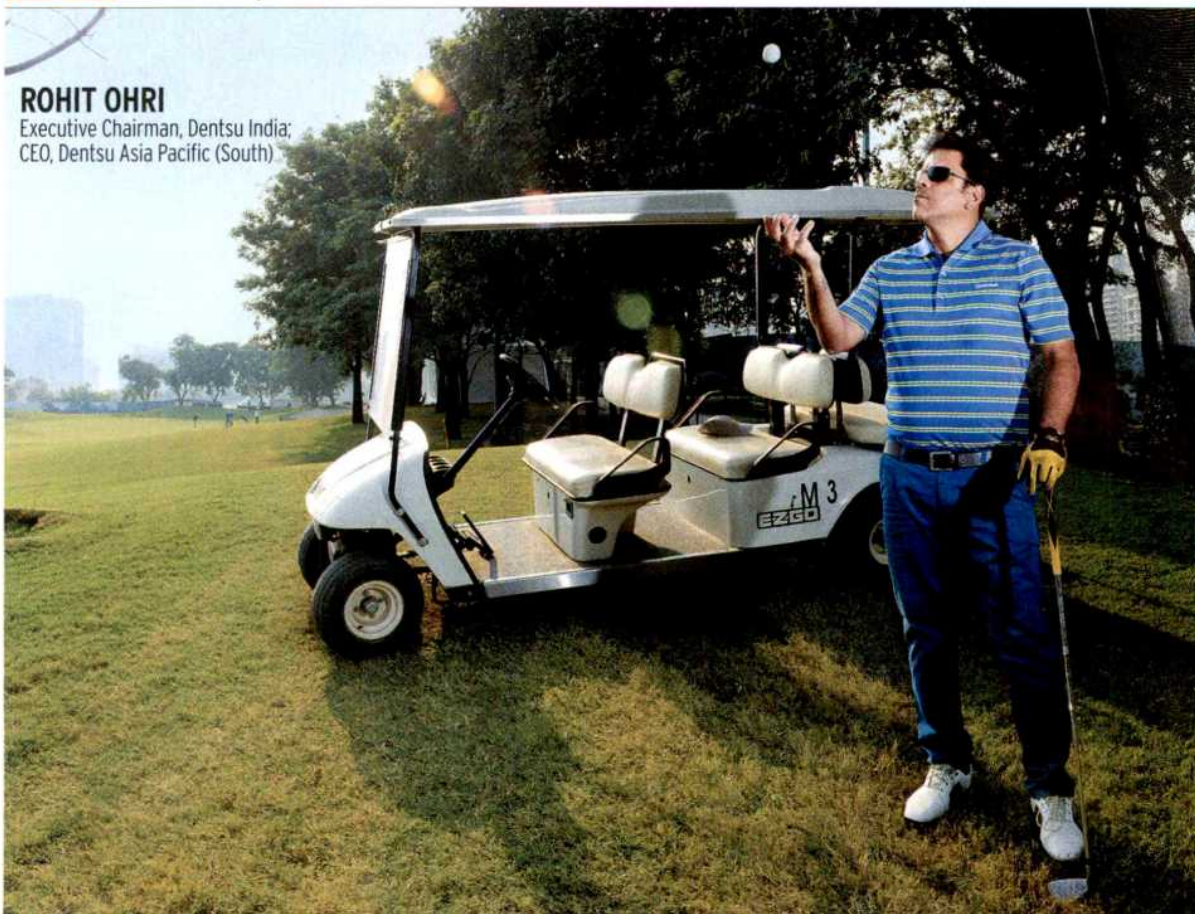
Betting on India

For most of his career, **NIKHIL RATHI** worked with the UK government in various positions. In early 2014, he joined the London Stock Exchange Group (LSEG) to grow its business in different regions and across various product lines. "In terms of product lines, we are seeing significant growth in fixed-income markets and exchange-traded funds. The indices business is a big growth area," says Rathi. 35. He feels the Indian capital markets are well developed. "We see huge potential for Indian issuers to tap international capital and debt market to support their business. The exciting thing about India is the speed at which a number of reforms are coming through...." says Rathi. At present, 61 Indian companies are listed on LSEG's different markets. Put together, these companies have market capitalisation of around \$200 billion. "As India grows, one would expect significant foreign portfolio investment into Indian names," adds Rathi.

MANU KAUSHIK

ROHIT OHRI

Executive Chairman, Dentsu India;
CEO, Dentsu Asia Pacific (South)



SHEKHAR GHOSH

ROHIT OHRI talks to **ARUNIMA MISHRA** about advertising agency Dentsu India's focus on its digital arm and how it tackled a leadership crisis. Edited excerpts:

How is Dentsu different from other advertising agencies?

Dentsu has never been an unbundled agency. It has never separated its media business from its creative or digital sides. That's the way the Japanese like to work, unlike the West's fragmented way of working. Our network arranges itself around the client's need. We are collaborating around the client. Many agencies are doing it, but these are bespoke teams where agencies create such teams to offer an integrated solution, while we, at Dentsu, work this way. It's a way of life for us versus one of an assignment. Dentsu India grew at 65 per cent in 2013/14, and I am expecting it to grow aggressively to achieve a similar growth this financial year (2014/15), too.

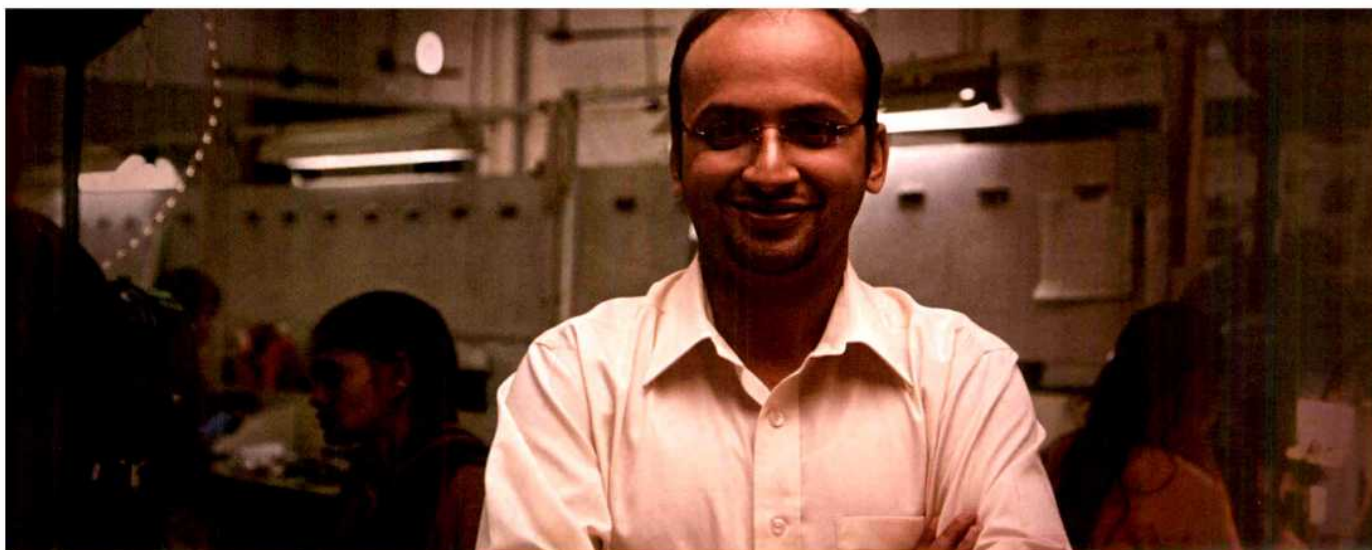
Every brand is looking at digital. Will there be any paradigm shift in Dentsu's strategy in this regard?

Digital will form the core of Dentsu's marketing strategy. Over the next three years, I would like to take Dentsu India's digital revenues up, and ensure that over 25 per cent comes from digital. At present, the revenue is evenly split between the mainline (creative agency) and media agency. Dentsu Digital, born out of the Dentsu creative

agency, will bring the digital capability to the heart of the group over the next two to three years. Webchutney (acquired by Dentsu India in 2013) will be integrated much stronger with the mainline agency.

How have you handled the leadership crisis at Dentsu?

After the exit of the previous management, there was a serious leadership issue. During this period, many clients moved out of the agency. When I had joined Dentsu from JWT, I had to reassure faith, and rebuild the lost confidence, not only inside Dentsu, but also outside, with our clients. There was no leadership across the verticals; so we had to find people to head these, who could deliver as well. Many people joined Dentsu primarily because I asked them to. I leveraged a lot of my personal equity to build the current team. Now, we have three National Creative Directors – Soumitra Karnik, Titus Upputuru, and Swati Bhattacharya – who are the best in the advertising industry. [Bhattacharya heads Dentsu India's new Mama Lab project, which will try to help understand the new-age mother as a consumer and break the stereotypes.] The new team is a great mix of youth and experience. For an agency's growth, one needs to marry the youth's aggression with the wisdom of the experienced. We have become a far more strategic agency which looks at how best we can deliver integrated communication. ♦

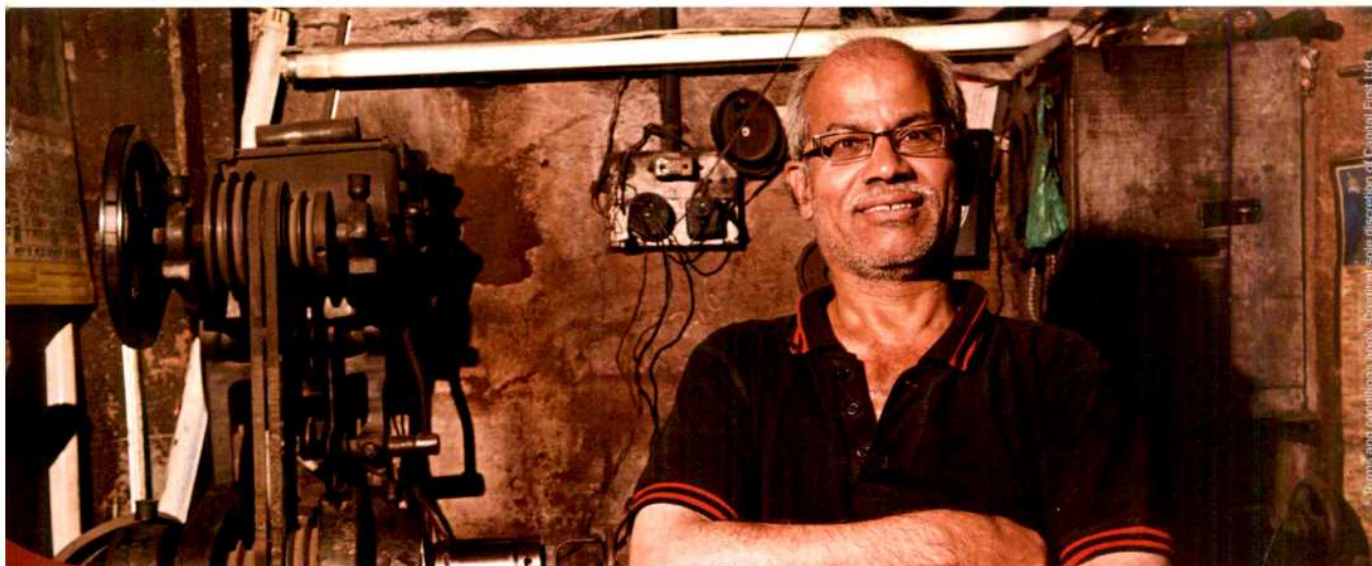


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Capital Crisis

Public sector banks collectively need to raise **₹4.60 lakh crore** over the next four years if they want to stay in business. It is going to be an uphill task



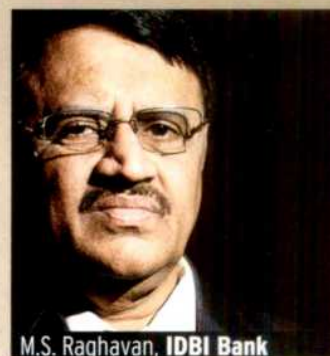
Arundhati Bhattacharya, **SBI**



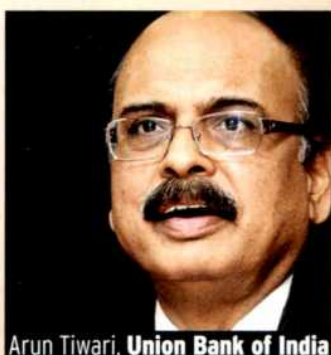
V.R. Iyer, **Bank of India**



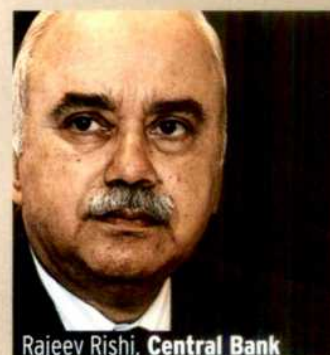
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From the Editor

Money Matters

Shortly after the global financial collapse triggered off by the sub-prime crisis, financial regulators around the world realised the need to revisit the capital adequacy norms and various other guidelines under which their banks were operating. Till then, the banks around the world generally adhered to the guidelines set by what was called Basel II – or a set of norms of financial requirements that had been agreed upon by the Basel Committee on Banking Supervision, whose members included most of the central banks around the world. In 2010/11, they came up with what are called the Basel III norms. These prescribed fairly stringent norms for the minimum capital a bank was required to maintain, a couple of capital buffers that were mandatory, and finally a leverage ratio that would prevent a bank from becoming overleveraged. And several other requirements.

All commercial banks globally were to become Basel III-compliant by 2015, though the deadline was first extended to 2018 and now 2019. The Reserve Bank of India is also a member of the Basel Committee, and hence all Indian

banks need to meet the Basel III capital adequacy norms by 2019. If they cannot meet those norms, the RBI can instruct them not to give any fresh loans until they meet the new capital adequacy norms.

The new norms are not a problem for most of the big private sector banks. ICICI Bank and HDFC Bank even today maintain a capital adequacy ratio that is far in excess of what Basel III prescribes. But for most public sector banks, the new norms represent a big challenge. Over the past few years, the public sector banks have had to deal with the twin problems of increasing non-performing assets (NPAs) and the government's reluctance to give enough money to shore

up their capital. As a result, the capital adequacy ratios of most PSU banks have been deteriorating over the past five years.

Between now and 2019, the public sector banks need to raise a humungous ₹4.60 lakh crore as fresh capital, at least half of which needs to be equity capital. This is proving to be a huge headache for the bank chiefs as their main shareholder, the government, doesn't have the money to pump up their capital to the extent required. One way to raise the required capital would be for the government to reduce its stake and for the banks to raise fresh equity largely through retail investors. The problem is that the equity markets are quite cold to shares of public sector banks. That's because the public sector banks do not have the freedom that their private brethren enjoy to take purely commercial decisions. They are also required to meet some of the other goals of their promoter. That could range from financial inclusion of the very poor to adequate credit for the infrastructure sector. All these make the public sector banks far less attractive to the average investor than the private sector banks.

Senior Editor Anand Adhikari explains the full extent of the problem in our cover story this issue. It is a big problem given that the public sector banks account for two-thirds of the loans and advances in the country and any hiccup in their function can bring the country's economy to a standstill.



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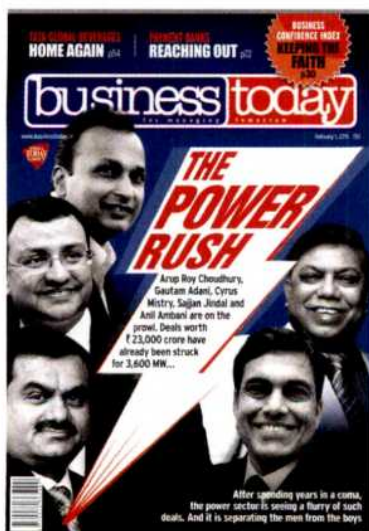
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Power Woes

This refers to your cover story *Switching Back to Power* (February 1, 2015). It is a well-timed article. Urgent priority must be given to the distribution of power to dying industries. Power needs of the common man also have to be met. An energy audit panel can help the Central government phase out the free and concessional power being offered to multifold users, including industrial establishments. Small entrepreneurs in energy sec-

tor have to be given tax holidays because they have to battle financial constraints while executing projects. On the supply side, unconventional energy sources – such as wind power and tidal power – have to be explored to cater to the needs of the consumers. The Centre must calibrate its policy initiatives to speedily spur power generation. This will come as a shot in the arm for power companies and come as a relief to power consumers as well. The government will otherwise be accused of falling asleep and doing little to address the chronic problems faced by the power sector. It must act immediately.

B. Rajasekaran, Bangalore

Saving Electricity

Your cover story on power is well written and well analysed. Saving of electricity is equivalent to its production. The government should consider restrictions on electronic hoardings, billboards and other energy-guzzling advertising avenues. Also, to save power, night weddings and night sports events must be banned. It is also the right time

to invest more in solar and other sources of energy.

Maresh Kapasi, New Delhi

Food Without Salt

This refers to an article on hospitality (*The Oberoi Returns*, Feb 1). It starts with an anecdote about eggs and the colour of their yolk and how P.R.S. Oberoi is obsessed with a particular shade of yellow and his attention to detail. But there is no meat whatsoever in the story. There is no mention of the hostile takeover bid that the company faces from its competitor and how it is trying to battle it out with limited and meagre resources of its own. A story on the Oberoi group without even a small reference to this very interesting development is basically serving food without salt.

Sudipto Roy, On email

Correction

The article *A Window to the Future* (Feb 1) inadvertently mentioned that Ford had introduced Sync 2.0 with Applink in the Fiesta. The automaker had actually launched Sync AppLink in the car. The error is regretted.

Send all your comments to: editor.bt@intoday.com

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"Corruption is not even whispered since the Modi government came to power," says Finance Minister Arun Jaitley.

Good news... And if it continues for a decade, India will be a different nation.

- **Saranjith Ramachandran**

Is BlackBerry Classic worth ₹31,990?

The Classic is the best BlackBerry and better for productivity and multitasking. It is better than iPhone 5c.

- **Alex Garcia**

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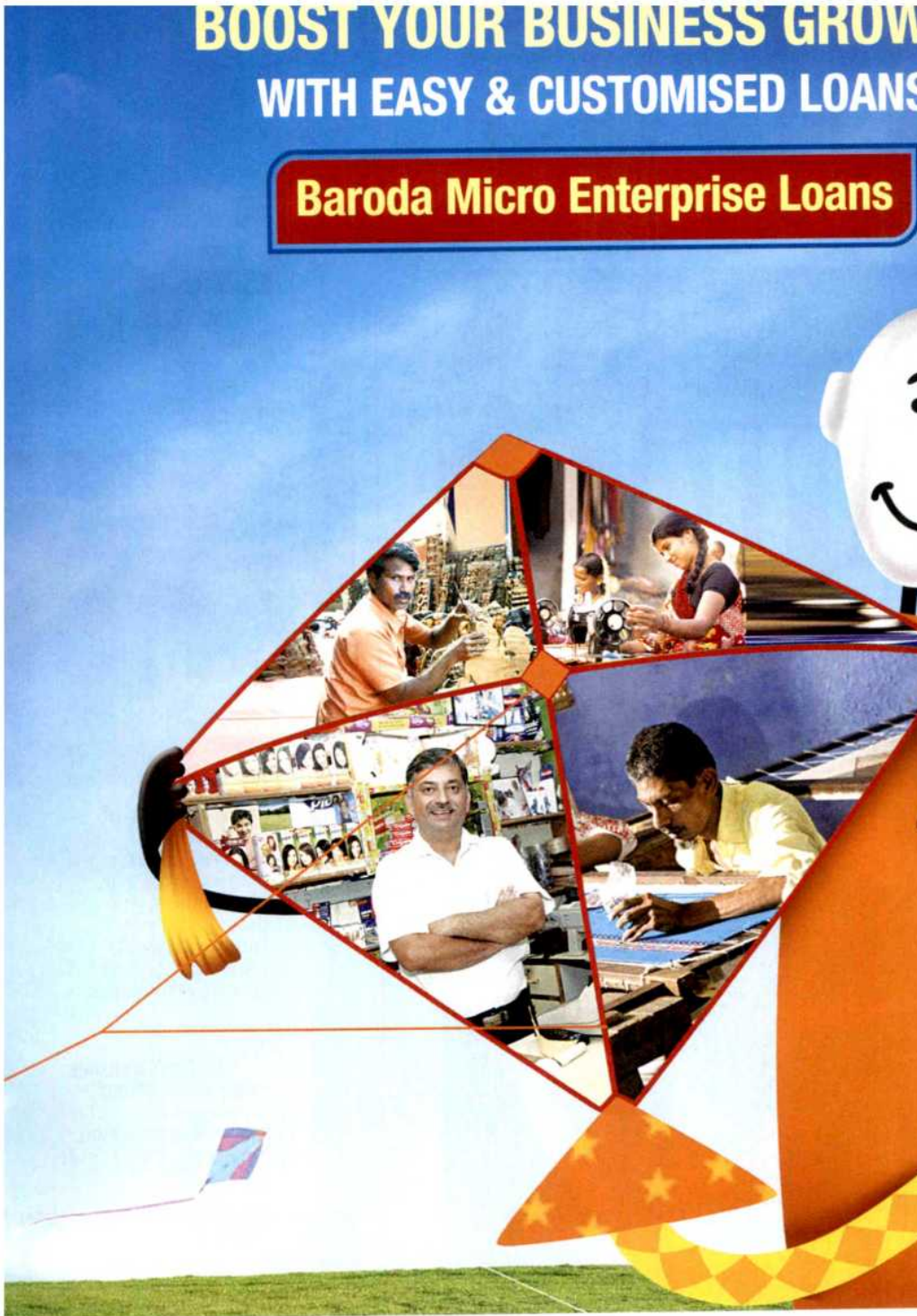
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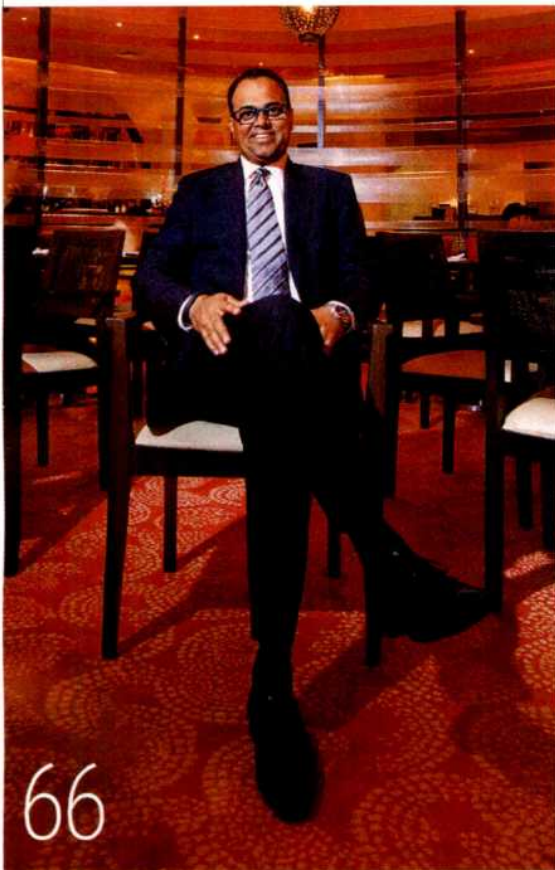
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COLUMNS



Make in India - The Kaizen Way

Sourish Mohan Mitra of PwC says India needs to take revolutionary steps, just like Japan did, to boost manufacturing.

businesstoday.in/manufacturing-mitra



Booster Dose

Sidharth Shankar of J. Sagar Associates says liberalisation of FDI is a shot in the arm for the medical devices industry.

businesstoday.in/medicalfdi-shankar

PERSPECTIVE

Over to the Government

After rate cut booster, the government must now get its act together, says Mahesh Nayak.

businesstoday.in/ratecut-govt

NEWS

Dismissing Rumours

TCS CEO N. Chandrasekaran says reports of layoffs by the company is a "figment of imagination".

businesstoday.in/tcslayoffs-chandra

Lured by Social Media

Indian authors turn to social media to expand their reader base.

businesstoday.in/socialmedia-authors

Growing Burden

Sugar mills in Uttar Pradesh pile up arrears of ₹1,644 crore to cane farmers.

businesstoday.in/sugarmills-arrears2015

On the Prowl

Emami acquires Australia-based personal care company Fravin.

businesstoday.in/emami-fravin

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Chitterati

Time to go skill-shopping before job-hopping, says Chitra Narayanan.

businesstoday.in/skillset-jobs

INDIA'S BEST KEPT SECRET

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1% > 99%

This is not a puzzle. The world's richest one per cent will own more than half the wealth by 2016, or more than what the rest 99 per cent will own, according to the anti-poverty charity Oxfam. The richest 80 persons alone own \$1.9 trillion, which is more than that owned by the 3.5 billion people at the bottom half of the income scale.

Thirty-five of those 80 are Americans, with a combined wealth of \$941 billion.



HEROES AND VILLAINS

It took a while but one of the regulars on this page is back. This time, **N. Srinivasan** has been barred by the Supreme Court from contesting Board of Control for Cricket in India's elections, to be held within six weeks, unless he gives up his commercial interest in the IPL franchisee Chennai Super Kings. The court struck down the cricket board's amendment to its constitution that allowed board officials to have commercial interests in the IPL and Champions League T20. The two-judge bench called the amendment "the true villain of the situation at hand".

SWEET SOMETHINGS

"Mr Roy is an interesting guy... I have to be careful when I say these things – but I can be sweet when I talk... you get more with honey than with vinegar"

Says **Saransh Sharma**, CEO of Mirach Capital Group, which plans to extend a one-year loan of \$2 billion to Sahara Group, in *Mint*. The interviewer asked Sharma how he had approached Subrata Roy. Mirach expects the loan to become an opportunity to acquire some of Sahara's best assets

NOT QUITE THERE YET

South Korea's **POSCO** inaugurated a steel mill on January 22. But that means little to its decade of struggle to get off the ground in India. The inaugurated mill, of 1.8 million tonnes a year capacity, is in Maharashtra. The company's flagship project, a 12 mtpa mill in Orissa, still sees no light at the end of the tunnel.

SPLIT VERDICT



EBay Inc plans to break into three different companies, reports Reuters. It will spin off its payments division, PayPal, creating two publicly-traded standalone companies, and will either sell its eBay Enterprise unit or float a public offering for it. The moves come as analysts wonder how long eBay can hold its own in the face of the march of Amazon, Google, and Alibaba.

A DIFFERENT PRESSURE

"Does it mean I have got to win now?"

That's what **Roger Federer** asked during a press conference at the Australian Open. The subject was the sharp jump in his country's currency, the Swiss Franc – 41 per cent against the Euro at the time of going to press – as a result of the Swiss National Bank's surprise decision to remove its currency cap. Federer, according to Bloomberg, is the biggest earner in the history of tennis with \$88.7 million in prize money alone. He lost in the third round at the year's first Grand Slam.



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THE RAJAN CUT

WHAT: *The RBI's monetary policy review*
WHEN: February 3

WHAT TO LOOK FOR: The Reserve Bank of India (RBI) cut its key lending rate from eight per cent to 7.75 per cent on January 15, while it kept the cash reserve ratio unchanged at four per cent. The RBI has indicated that rates could be cut further this year. This is the first cut in repo rate – the rate at which the central bank lends to commercial banks – since March 2013. A rate cut will lead to a drop in EMIs consumers pay on their housing and auto loans. But it may take three to six quarters for the rate cut to translate into fresh investments, according to experts.

2 - 6

TRADE TANGLE

WHAT: *The next round of Transatlantic Free Trade Talks*
WHEN: February 2-6



WHAT TO LOOK FOR: The European Commission is preparing a new text proposal on how to better align US and EU government regulations across all industry sectors. With the US and European Union together representing an estimated 60 per cent of global GDP, 33 per cent of world trade in goods and 42 per cent of world trade in services, their talks will have an impact across the globe.

7 - 10

DELHI POLLS: BLACK AND WHITE

WHAT: *Delhi assembly elections*
WHEN: Polling on February 7, counting on February 10



WHAT TO LOOK FOR: Two of India's prominent civil rights activists **Arvind Kejriwal** from AAP and **Kiran Bedi** from BJP are locking horns to become the Chief Minister of Delhi. Kejriwal is desperate to shed the tag that he had thrown it all away the last time around when he got the job of chief minister against heavy odds. BJP, with Bedi as its local mascot, wants to further cement its success after recent electoral victories in other states.

THE SURPRISE ELEMENT: The question of how much black money will change hands is uppermost in everybody's mind. The Income Tax Department has set up a toll-free control room for the public to alert it about any suspicious movement of large sums of cash in the run up to the polls. The Election Commission is behind this drive, too.

11 - 13

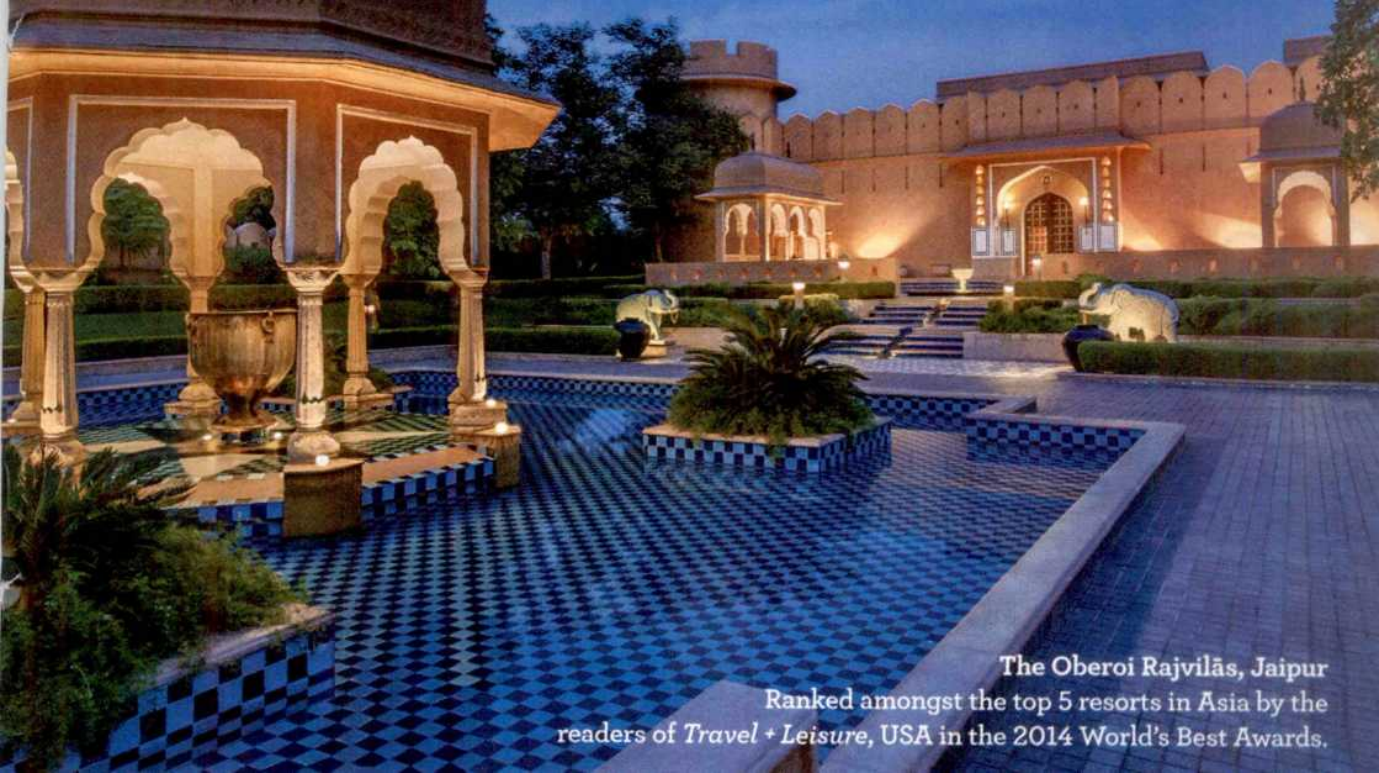
DATE WITH DIGITAL GURUS

WHAT: *Nasscom leadership forum*
WHEN: February 11-13

WHO: Speakers include Cisco's President (Asia-Pacific and Japan) Irving Tan; Mike McNamara, Group CIO, Tesco; **Paul Hermelin**, Chairman and CEO, Capgemini Group; **Tiger N.V. Tyagarajan**, President and CEO, Genpact.



WHAT TO LOOK FOR: This year's focus is on *The world in 2020: Building the Digital Future*. Fittingly so, as the new age is impacting businesses in ever new ways. Witness the e-commerce frenzy, for instance. There are many not-to-be missed sessions, including what large enterprises can learn from start-ups.



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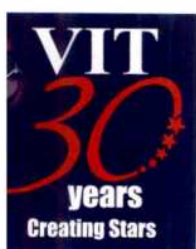
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Ready to act: Prime Minister Narendra Modi

The Futility of Ordinances

The President isn't amused by the spate of ordinances. And the industry isn't enthused. It would rather wait for Acts passed by Parliament.

By RAJEEV DUBEY

When the Budget Session of Parliament kicks off on February 23, more than the Budget itself, the spotlight will be on how the Narendra Modi government manoeuvres the controversial ordinances it has issued which have invited the ire of UPA chief Sonia Gandhi. The latter has expressed her intent to gherao the government on the floor of the house.

Under attack for issuing 10 ordinances since coming to power in May, 2014, the Modi government has gone into a huddle to find a solution to the parliamentary deadlock. It's a situation triggered by an absolute majority in the Lok Sabha but a lack of strength in

VIKRAM SHARMA

the Rajya Sabha. Either bills tabled by the government get approved by the Lok Sabha but are stuck in the Rajya Sabha or the government has failed to table the bills due to frequent disruption of parliamentary proceedings. These include the insurance bill, the land acquisition bill, the mines bill, the coal bill and the citizenship amendment bill.

Since each bill requires assent of both the houses of Parliament, the ordinances are being termed as an attempt by the executive arm of the government to usurp the powers of the legislature. That it is being un-democratic and that the actions are an attempt at image management as a 'doer'.

That's precisely what the framers of the constitution wanted to avoid when they conferred on the President of India the power to issue ordinances under Article 123. The ordinance as an executive order to form new laws was to be used under exceptional circumstances only, not as a routine business affair to form new laws.

The Article provides that an ordinance can only be issued when Parliament is in recess: "If at any time, except when both Houses of Parliament are in session, the President is satisfied that circumstances exist which render it necessary for him to take immediate action, he may promulgate such Ordinance..."

The string of ordinances issued raises two key questions: one, whether they have allayed fears of the business and inspired confidence among investors that this government means business; two, whether they were needed at all.

For one, the business clearly isn't enthused. In fact, in some cases ordinances are being challenged in court. Take the case of the Coal Mines (Special Provision) Ordinance. It is meant to authorise e-auction of coal blocks to private companies for captive use and also to allot mines to PSUs. In September 2014, the Supreme Court had cancelled licences allotted to 204 coal blocks following charges of widespread corruption in allotment of these blocks.

On January 20, however, the Supreme Court admitted a plea from Kolkata-based Sova Ispat requesting an interim stay on the auction of coal block originally allotted (later cancelled by the court) for its operational steel plant. A stay order could be a big blow to the

coal auction scheduled in February.

Earlier, on January 12, the Delhi High Court sought a response from the coal ministry on a plea by Jindal Steel & Power that challenged the ordinance on the grounds of change of end use of its cancelled coal blocks in Chhattisgarh and Orissa. The ordinance has noted their end-use for 'power' while they were originally allotted for captive use by Jindal's steel plant.

In other cases, such as in the insurance bill, investors already spooked by India's ret-

TAKING THE SHORT CUT

The Modi government has issued 10 ordinances since coming to power



Balance of power: Parliament House in New Delhi

- > **The Right to Fair Compensation and Transparency in Land Acquisition, Rehabilitation and Resettlement (Amendment) Ordinance**
- > **Insurance Laws (Amendment) Ordinance**
- > **The Coal Mines (Special Provision) Ordinance**
- > **The Coal Mines (Special Provision) Second Ordinance**
- > **Mines and Minerals Amendment Ordinance**
- > **Citizenship (Amendment) Ordinance**
- > **Motor Vehicles Act Amendment Ordinance**
- > **The Textile Undertakings (Nationalisation) Laws (Amendment and Validation) Ordinance**
- > **The Andhra Pradesh Reorganisation (Amendment) Ordinance**
- > **The Telecom Regulatory Authority of India (Amendment) Ordinance**

respective laws would rather wait for the bill to be passed by Parliament rather than act on the basis of the ordinance. The concern stems from the tenure of an ordinance. Article 123 specifies that unless approved or re-promul-

gated, an ordinance will lapse at the end of six weeks (42 days) from the day the next session of Parliament begins.

Technically, if an ordinance lapses, all actions taken on the basis of that ordinance must lapse too. But, no. The Supreme Court has held that actions taken while the ordinance was in effect would hold as if the ordinance continued to exist. Even that doesn't really inspire confidence among investors. The Lord Mayor of London, Alan Yarrow, for instance, said recently on a visit to India that British insurance firms are waiting for the insurance bill to be passed by Parliament to invest in India. AIG, Standard Life Plc and MetLife Inc. are among the firms that have expressed a desire to raise their stake from 26 per cent to 49 per cent in their Indian insurance ventures.

The worry is clearly over a project, investment or a decision getting stuck due to either withdrawal or lapsing of an ordinance.

Next comes the issue of necessity of issuing the ordinances that has been questioned by none other than the signatory to these ordinances itself – the President of India (who is bound to act on the advice of the Council of Ministers). On whether the government could continue holding joint sessions of parliament to pass the acts, President Pranab Mukherjee recently told students of central universities and research institutions over a video conference that holding joint sessions of Parliament to enact laws is “not practical” and that it is the collective responsibility of the entire political system “to put their heads together and work out a workable solution”.

The government can obviously re-promulgate an ordinance. Probably, for the critical ones, it will. But an ordinance can be re-promulgated only three times. Of the current

KEEPING COUNT

Ordinances issued over the years by various governments

637

Total number of ordinances issued between 1952 and 2014, or 11 on average every year

53

Number of ordinances re-promulgated between 1991 and 1999, some as many as five times

34

Maximum number of ordinances issued in a year, in 1993

6

Average number of ordinances issued in the past decade

lot, the coal ordinance – originally issued in October – has already been re-promulgated in December.

Yet, there was a phase between 1952 and 1991 when no ordinances ever had to be re-promulgated. But that was also the era of majority non-coalition governments. Between 1991 and 1999, however, 53 ordinances were re-promulgated – some as many as five times.

Historically, presidential ordinances have been better known for misuse than use. According to a study by Shubhankar Dam, Assistant Professor of Law, Singapore Management University, of the 615 ordinances promulgated between 1952 and 2006, 214 were promulgated barely 15 days before a new session of Parliament was to

sit, 261 were promulgated within 15 days of the end of a Parliament session. In all, between 1952 and 2014 various governments have issued a total of 637 ordinances at an average of 11 ordinances a year.

The most shocking one was the Indira Gandhi government's decision to nationalise banks on July 19, 1969, 24 hours before the Parliament session. In India's parliamentary history, the maximum 34 ordinances were passed in 1993. While six is the average number of ordinances passed every year in the past decade, the Modi government has already issued nine.

The ordinances are due for review in the Budget session between February 23 and March 20 when the bills must either be passed or ordinances re-promulgated. It is now for the government to work with the opposition to pass the bills and prove that this was not mere image management, but it means business. ♦

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"Unified Licensing Policy in the Offing"

In May 2014 DHARMENDRA PRADHAN took over as the Union Minister of State (Independent Charge) for Petroleum and Natural Gas. Many expected him to face a series of roadblocks, including corporate interference. But, barely seven months into his tenure, Pradhan is comfortably placed, much to the envy of his predecessors. Since he took over, crude oil prices have hit a historic low, allowing him to decontrol diesel and fix gas prices. He hopes to finalise strategic reserves now that most of the supply-side constraints have been addressed. The minister told Anilesh S. Mahajan that the government is working to curb leakages, increase efficiency and ensure the country's energy needs are secured. Edited excerpts from an interview:

global oil producing companies to source oil. The caverns will be complete by February, and we expect to receive the first consignment soon after. The filling up of these reservoirs will start in the current financial year.

Now that the subsidy burden is lower, can we expect oil producing companies such as ONGC and OIL, which have historically shared the burden of oil marketing companies, to get some relief?

The oil ministry has written to the finance ministry to exempt these companies. Deregulation of diesel, softening of crude oil prices and other petroleum products have

By levying additional duties, Finance Minister Arun Jaitley has used the situation well to increase revenues. How do you, as the oil minister, plan to use this opportunity?

All ministries are working as a team and not in isolation. The government has decided to keep prices of petroleum products within a comfortable range. The additional cess and excise duty will help create additional infrastructure. Now that diesel is decontrolled, oil marketing companies are ensuring prices are revised at regular intervals.

The Centre can take this opportunity to fill up strategic reserves. Who will fund the caverns?

There is complete clarity on this front. The government will fund them. The cabinet decision on strategic reserves empowers the government to do it. There is no ambiguity. As a sovereign state, the government will have to fund the crude. We are talking to various

STRATEGIC OIL RESERVES WILL BE FUNDED BY THE CENTRE AND FILLING UP OF THE RESERVOIRS WILL START IN THE CURRENT FINANCIAL YEAR



RAJWANT RAWAT



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KEROSENE OIL PRICING AND SUBSIDY IS A MORE COMPLEX ISSUE. WE ARE IN TALKS WITH STATE CHIEF MINISTERS BEFORE CHALKING OUT A STRATEGY

provided the government with a chance to revisit the subsidy-sharing formula. The final decision, however, is yet to be taken.

The central government has pushed for direct benefit transfers to LPG consumers. What has been the response, and how do you plan to take things forward?

The response has been good. As of January 12, 59.5 per cent of LPG subscribers have enrolled in the scheme. We have been meeting our internal deadlines, and will be able to successfully transfer subsidies directly to bank accounts from March 31. When the prime minister had talked about opening bank accounts for every Indian in his Independence Day speech, many thought it would be an uphill task. But, the goal has been achieved. We have been getting great response, and, soon, LPG consumers will get the subsidy transferred to their bank accounts.

The CAG had said that diversion of funds meant for the MNREGA schemes had taken place despite direct transfers to beneficiary accounts. There might be similar concerns over direct transfers for LPG. Please share your experience.

We are following a judgment, where the court had observed that Aadhar is not mandatory for transfer of benefits. Having a bank account is good enough. We are trying to make the process simpler and transparent. Out of the nine crore beneficiaries, over three crore who have bank accounts have benefitted from this relaxation. We have also been proactive in addressing complaints from them.

Do you have plans to have kerosene prices determined by the market?

Kerosene oil pricing and subsidy is a more complex issue. We are in talks with state chief ministers before chalking out a strategy. Every state has its own issues, and many of them are genuine. It will take some time to resolve.

The UPA had announced the New Exploration and Licensing Policy (Nelp-X) rounds, but the decision on production-sharing contracts

remained unresolved. What is the scenario now?

We are discussing the revenue model for these blocks. A decision will be taken soon. The blocks will be disbursed in the most transparent manner. We have a 10-point internal reforms initiative to remove the bottlenecks of the existing system and to make it more efficient. We believe it would also help increase production from existing fields.

In an effort to further exploit India's assets in marginal fields, a new policy is also being framed. After inspecting these fields, ONGC and OIL have said that they may not be commercially viable. However, though the PSU oil companies will continue to hold the licences, private players can explore the fields. We feel there will be enough excitement among private players to start production. We are also contemplating a unified licensing policy, where the licensee will get automatic clearances to explore even if he finds other minerals, including shale, coal, coal-bed methane, oil or gas. This may change the way exploration is done today.

The coal ministry also seems to be on the same page on this. They are already in the process of e-auctioning several mines.

We are in discussion with them as well. In the future, auctions of coal mines will have these provisions. Officials from both ministries are ironing out the issues, which are related to the technological competence of miners.

The government has also succeeded in fixing gas prices without political controversies. However, there has been some criticism on keeping gas abundant indexes, such as the one in Russia. What's your take?

All four indexes, Henry in the US, Balancing Point in the UK, Canada's Alberta and Russian are gas-based hubs and have been the best available marks. The vision of the government is to make India a gas-based economy as well. We are looking for ways to secure energy that would include cheaper imports, ensure overseas assets, increase domestic production, introduce technological advancements and focus more on conservation of energy. ♦



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Cut to the Chase

Even if India grows at a faster clip, catching up with the Chinese economy will take a very long time. By PROSENJIT DATTA



INDIA'S CURRENT GDP PER CAPITA IS \$1,625.64, COMPARED TO CHINA'S \$7,572.36 AND \$54,678.17 FOR THE US

Two reports released in quick succession last week – one from the World Bank and the other from its twin, the IMF – indicated that the India economy could start growing faster than the Chinese economy within a year or two. The IMF report said this could happen as early as 2016, when the Indian economy would grow at 6.5 per cent, while the Chinese economy would have slowed to 6.3 per cent. The World Bank prediction was for 2017, when it expected India's GDP to start growing at 7.1 per cent, while the Chinese GDP growth would have come down to 7 per cent. There have been other reports – from Goldman Sachs and Macquarie – which sing the same refrain.

All reports focus on the fact that the NDA government led by Prime Minister Narendra Modi has been taking the right steps to push up economic growth, while the Chinese

economy has been slowing down, partly by design and partly because of the global economic conditions. In 2014, the Chinese economy registered its slowest growth in 24 years – growing at 7.4 per cent. Analysts do not expect it to go up to 10 per cent anytime soon.

The reports generated quite a lot of enthusiasm among cheerleaders of the government and the press in general. Most headline writers focused on India overtaking China in growth stakes. Many proclaimed that India would catch up with our northeastern neighbour soon. However, a reality check is in order here. The Chinese economy in 2014 was estimated to be around \$10.355 trillion. It had reached that figure after almost 30 years of 10 per cent-plus growth. Sure, its growth had slowed down in the past couple of years. But even after slowing down, it notched up over 7 per cent growth in its worst year in

two-and-a-half decades.

Meanwhile, the Indian economy stood at \$2.047 trillion in 2014. It has never grown at over 10 per cent since Independence. Currently, its growth stands at 5.4 per cent. By 2017, it is expected to grow at over 7 per cent, provided everything works out properly, the government does not make any mistakes and the global economy does not slip back into recession anytime soon. Even then, given the sheer differences in the size of the two economies, it seems unlikely that India will catch up with China anytime soon, or even in a couple of decades.

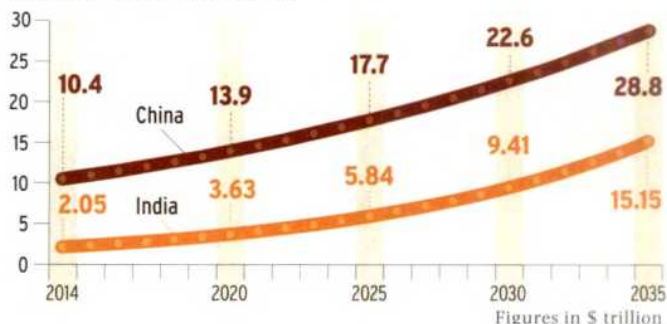
To understand that, look at the chart *Wide Gap*.

Assuming India grows at an average of 10 per cent over the next couple of decades from 2015 – and it is possible, given the Chinese economy managed to do so for a long period – the GDP of India in 2035 would still be at \$15.15 trillion. Meanwhile, even if the Chinese economy slowed to 5 per cent during the same period, it would still be almost double the size of the Indian economy in that year. In fact, at a 10 per cent compounded growth rate, the Indian economy in 2035 would still be lower than the current US economy, which stood at \$17.4 trillion in 2014.

Perhaps an even better measure to gauge the economic wellbeing of the citizens of a country is its GDP per capita, which is simply GDP per head of the population. It is here that the picture of India becomes even less flattering.

WIDE GAP

India's economy cannot match the size of the Chinese economy even in the next two decades



India's current GDP per capita is \$1,625.64, compared to China's \$7,572.36 and \$54,678.17 for the US. The Indian population, though still smaller than that of China, is growing much faster at 1.55 per cent annually. This is almost double that of China's growth rate of 0.66 per cent. By 2025, India may overtake China as the world's most populous nation. What that means is the gap in per capita GDP of India and China will widen further. And, so will the gap between India and the western countries. Sure, India is a rapidly developing economy, but it is still a long way to go before its people can start rubbing shoulders with their western peers when it comes to economic standing. ♦

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Rajan Ventures...

... where central bankers fear to tread. But he is the cleverest of them all. By SUVEEN SINHA

Raghuram Rajan, like filmmaker Ritwik Ghatak, was lionised overseas before being recognised in India. But many in India still think Rajan is better for Wall Street than Dalal Street.

Of course, Rajan does nothing to change that perception. As far back as 2008, he said in a speech before the Bombay Chamber of Commerce that Indians tolerated venal politicians because "he is the crutch that helps the poor and underprivileged negotiate a system that gives them so little access" to public services that are their right.

He built on the theme again in August last year, and raised the profile of the Lalit Doshi Memorial Lecture several notches by tearing into the delicate issue of crony capitalism. "One of the greatest dangers to the growth of developing countries is the middle income trap, where crony capitalism creates oligarchies that slow down growth."

Rajan's next broadside really stirred the pot, for it was on Prime Minister Narendra Modi's favourite slogan of Make in India, and we say slogan because it has not gone much beyond that yet. "... the world as a whole is unlikely to be able to accommodate another export-led China." Instead of Make in India, he said, "... we have to look to regional and domestic demand for our growth – to make in India primarily for India."

None of this should surprise someone who has followed Rajan over the years. He made his bones – in Mario Puzo's lingo – in August 2005. It was an annual gathering of high-powered economists in the US. They were honouring Alan Greenspan who was about to retire as the Federal Reserve's Chairman after a historic period of growth. Rajan, at the time a professor at Chicago University, thought of it as the right moment to present a paper titled: *Has Financial Development Made the World*



Riskier? He ended it by answering in the affirmative.

The paper first made him unpopular. Then, as the financial crisis set in, they thought he was prescient. The truth is Rajan has never been seen as someone who tries to be part of the system. Until now.

His out-of-turn rate cut on January 15, albeit by a minuscule quarter percentage, is being seen by some, including one of his teachers at IIM Ahmedabad, as a concession –

an attempt to fit in. What's more, it came in the wake of favourable noises made by Rajan and Finance Minister Arun Jaitley about how they did see eye to eye.

Many factors may have forced Rajan's hand. Oil prices have dipped faster than even someone as prescient as Rajan could have foreseen. WPI inflation is near zero. Consumer price rise is below RBI Deputy Governor Urjit Patel's target of 6 per cent by January 2016. The current account is poised to swing into a surplus for the first time in a decade.

Yet, the rate cut came on the back of Rajan's decision to make an exception and allow Tata Teleservices to buy Japanese partner DoCoMo's stake at a price higher than that mandated by the norms. Soon after, he allowed banks to act as insurance brokers and sell multiple products.

What will Rajan do next? He has six policy dates this year. How much and how often will he cut rates?

We can take solace in his opening statement after becoming RBI Governor on September 4, 2013, that he was not looking for Facebook 'likes'. Both, the Prime Minister and Finance Minister, are active on Facebook. If they still find Rajan likeable, there will be nothing to worry. Even Ritwik Ghatak went on to head the Film and Television Institute in Pune, as much a part of the establishment as any. ♦

@suveensinha

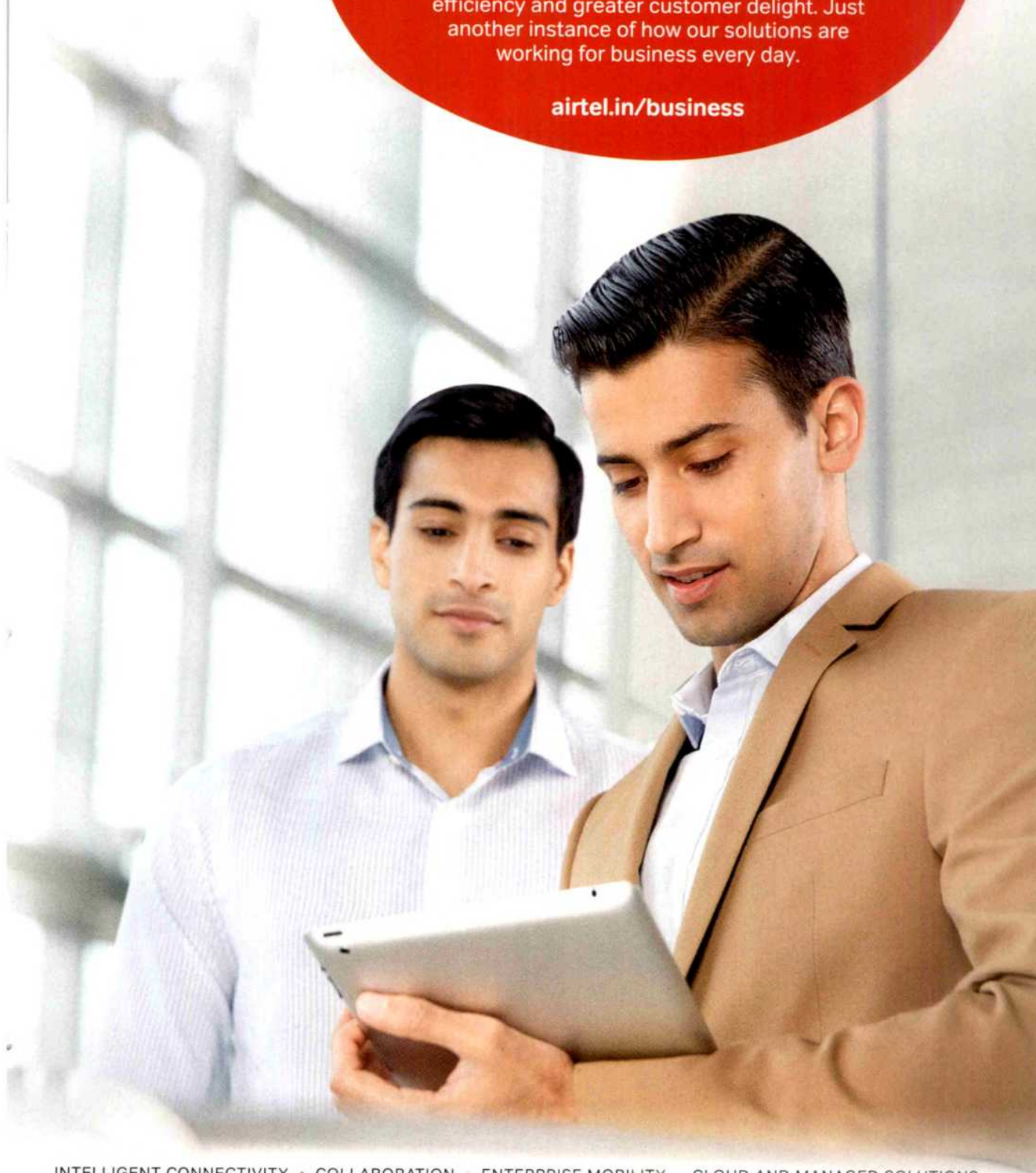
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BEING SEEN BY
SOME AS A
CONCESSION –
AN ATTEMPT
TO FIT IN**



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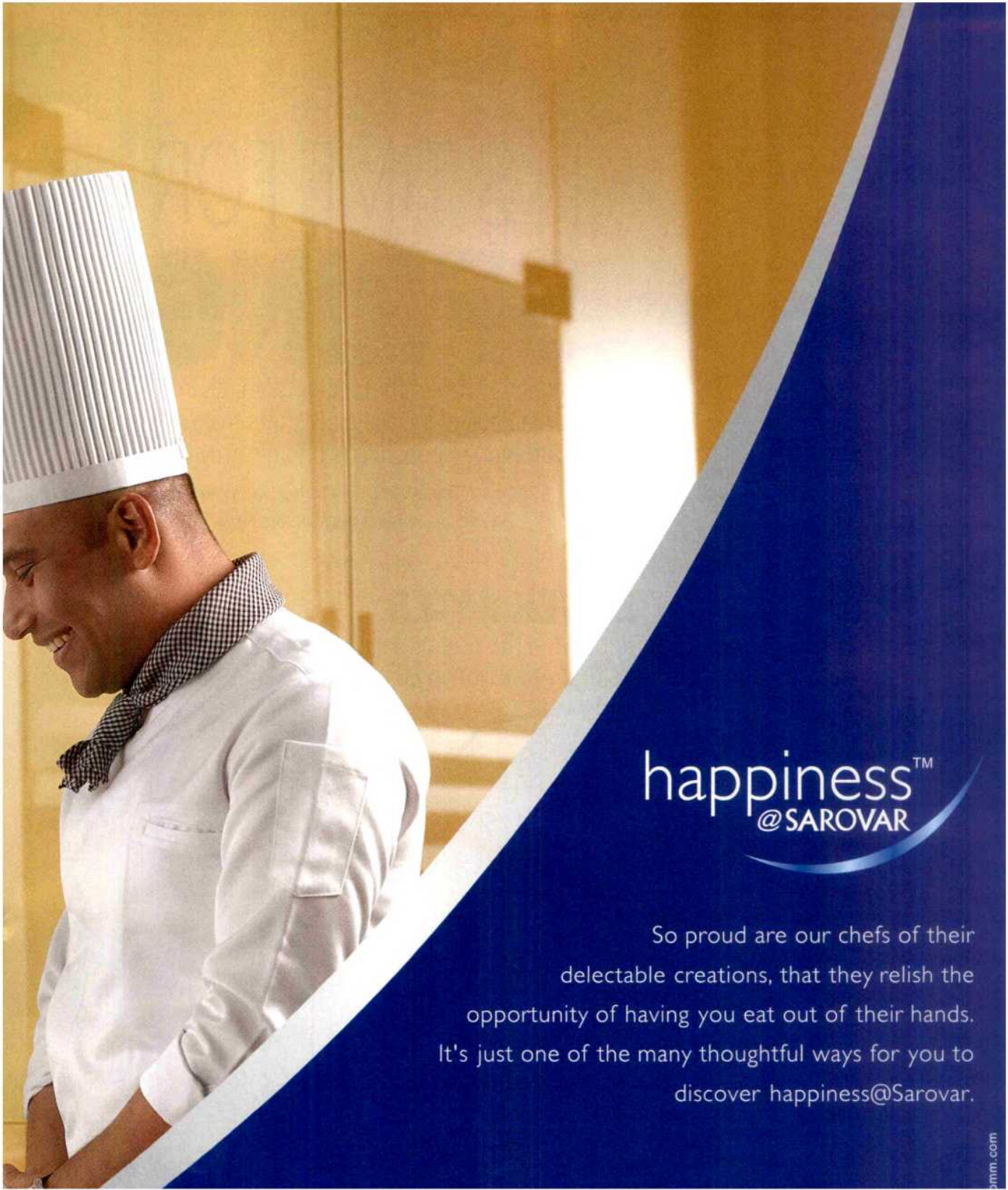


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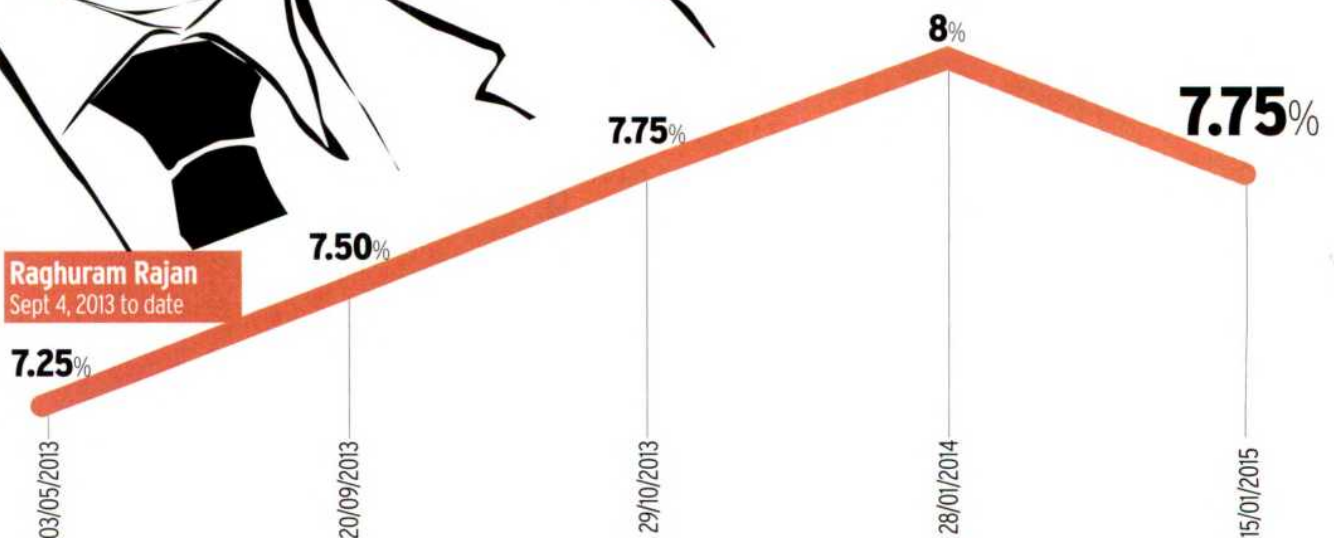
The stage may be set for further rate cuts in 2015 as the Reserve Bank of India's focus shifts from managing inflation to boosting economic growth.

GRAPHIC BY: **ANAND SINHA**; ILLUSTRATION BY: **RAJ VERMA**

RESEARCH BY: **JYOTINDRA DUBEY AND NITI KIRAN**

1. LOWER RATES

Repo rate, the rate at which RBI lends to banks, saw its first reduction in 20 months



Raghuram Rajan
Sept 4, 2013 to date

Over the years, RBI governors have tried to keep inflation on a tight leash without derailing the Indian economy



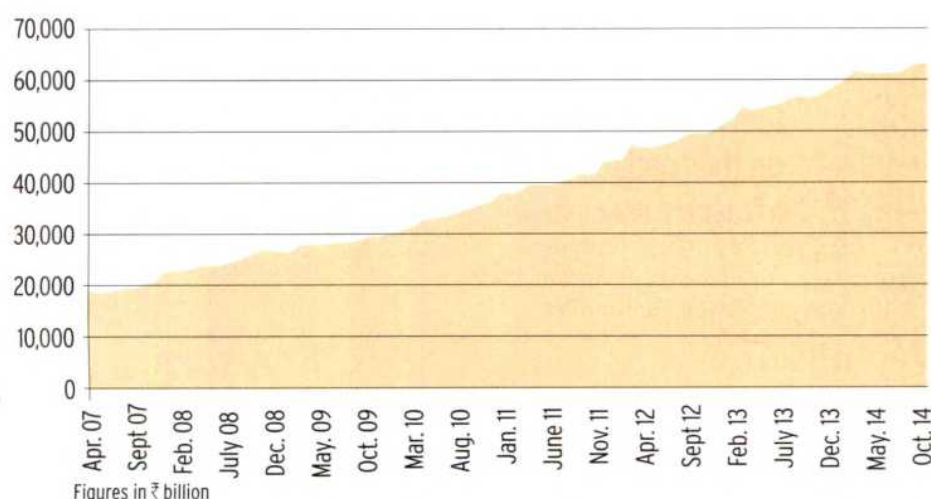
2. EASING INFLATION

Consumer price inflation has eased considerably in the last few months



3. CREDIT OFFTAKE

The rate cut is expected to lift demand for bank credit

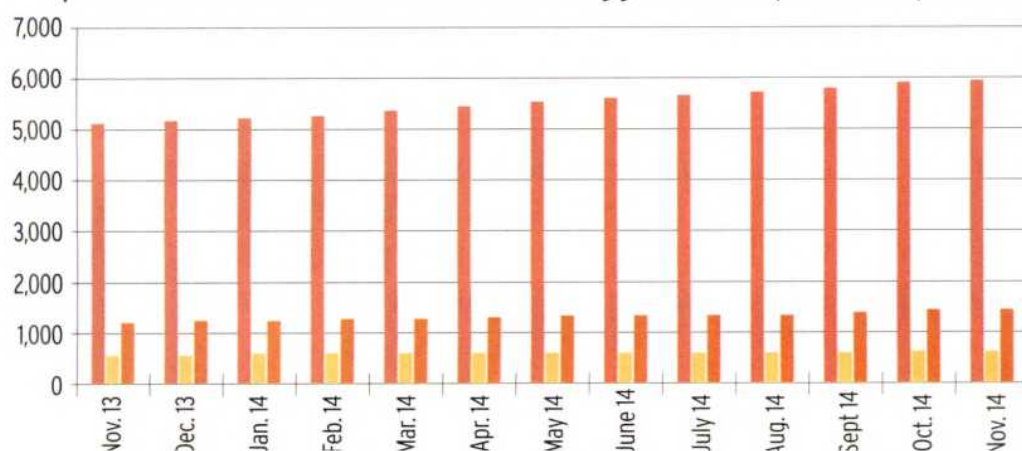


Moreover, it could lead to some improvements in the credit-deposit ratio, which has shown some signs of revival - it has increased to a five-month high of

76.1%

4. CHEAPER LOANS

The rate cut will also come as respite to the "aam aadmi", raising demand for personal loans that has remained sluggish in the past few quarters



“The benefits of getting women connected [to the Internet] outweigh the benefits of getting men connected”

SHERYL SANDBERG, Chief Operating Officer, Facebook, at the World Economic Forum in Davos, in The New York Times



“We are at a very very sweet spot in terms of macroeconomic scenario. In last 20 months, after Fragile Five was coined and India was found to be most fragile one, the analysis shows that the things have improved substantially. If we take advantage of this sweet spot and take right decisions, we will reach our true potential of high growth”

CHANDA KOCHHAR, ICICI Bank chief, at the World Economic Forum in Davos, to PTI



“The driver of Suzlon’s valuation was this company. What will remain, if you sell that? It’s like saying you sell your house to retire the home loan and say I am richer. The fact is that you are on the roads”

DALJEET S. KOHLI, Head of Research at brokerage IndiaNivesh, on Suzlon’s sale of Servion, to Reuters

“I have no more campaigns to run... I know because I won both of them”

BARACK OBAMA, US President, in his State of the Union address



“Only through radical transparency will we get radical new levels of trust [between customers and technology companies], which is where we need to get to”

MARC BENIOFF, Chairman and Chief Executive, Salesforce.com, at the World Economic Forum in Davos, in The New York Times

“It isn’t so black and white. [The] So-called austerity is often pitted against [the] so-called growth. We need to encourage public investment, yes, but also just as much private investment”

ANGELA MERKEL, German Chancellor, at the World Economic Forum in Davos, to Agencies

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WHAT'S TRENDING

Going Off the Grid to Connect

Open Garden's FireChat app can be a mobile megaphone in a low connectivity place. By **Chitra Narayanan**



Fourth-generation (4G) technology has arrived in parts of India. But in a country where both 2G and 3G are giving network

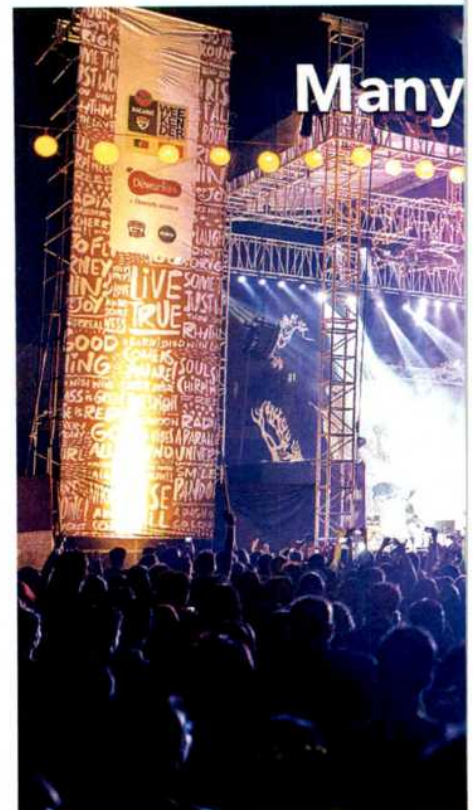
headaches to customers, could an off-the-grid social network capitalise?

Open Garden's Co-founder Micha Benolei, an expert in Internet architecture, feels so. The company, set up in 2011 to enable device-to-device sharing, tasted success with its demo app FireChat. The app, which uses Bluetooth to connect, was actually created just to show investors possible peer-to-peer networking solutions but unexpectedly went viral.

During the Hong Kong pro-democracy protests, demonstrators began talking to each other through FireChat bypassing mobile networks and voila, serendipitously, an entirely new use case was born. Nearly

100,000 users signed up on FireChat soon after Hong Kong. Inspired, Open Garden's founders – Benolei along with systems architect Taylor Ongaro, Internet architect Stanislav Shalunov, and software developer Greg Hazel – began adding more functionalities to FireChat. Open Garden, which is fast becoming a Silicon Valley darling with angel investors like Google backer Ram Shriram, raised \$10.8 million, mainly from venture fund August Capital, to finance expansion.

Open Garden is now eyeing India, already its second-biggest user base (one million) outside the US. "We think India is going to be a big market for Firechat. It absolutely makes sense when you realise how spotty the connectivity is in India and the number of smartphones that are shipped," says Benolei, adding that while smartphones are getting cheaper, data costs are a deterrent.



Chat for free: Open Garden's FireChat hits the right note at NH7 Weekender

FireChat offers a free way to connect.

In an emergency, FireChat has shown it can be used effectively by citizens, but how exactly can brands and businesses leverage it?

An example is the way the app was used during the Bacardi NH7 Weekender in Pune and Delhi, where participants could converse with each other and the musicians via FireChat. Over 40 bands including

DIGITAL DASHBOARD

THE EVOLVING PROFILE OF INTERNET USERS IN INDIA

The user base will get diverse as more rural, and more older folk become net-savvy



ACTIVE ASPIRERS

15-20 year olds, digital natives, mostly use phones for surfing



*Projected

28 mn
55 mn

SOCIAL SHOPPERS

Affluent 25-40 year olds, transact a lot online



Source: IAMA-BCG India@Digital Bharat Report

4 mn
10 mn

NOVEL NETWORKERS

Largely female, middle-income bracket, shop online a lot



7 mn
30 mn

LATE LEARNERS

Over 55 years, not too tech-savvy, heavy spending power



15 mn
20 mn



Many Messaging

Indian Ocean and the Raghu Dixit Project are on FireChat.

Now, plans are afoot to launch a chatroom at <http://firech.at/Dekho> with crowd-sourced information about cultural happenings and something around sports. Besides, there are several business use cases as well. For instance, in a plane, you could chat with colleagues seated in different places

through FireChat. The app offers seamless messaging within an office building among colleagues, bypassing mobile networks. It also has huge potential in gaming and could well disrupt the mobile payments landscape. The founders say it will be as safe as cash since it's a mesh network that connects devices directly without going through a central authority. ♦

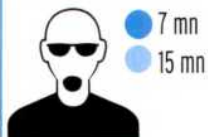
DATA DISCOVERERS

Mostly semi-urban and rural, use the Net for government data



PROFESSIONAL PROS

Digitally-savvy, from Tier-I cities mostly, use for work



ENTERTAINMENT ENTHUSIASTS

Heaviest users of Internet, from the middle-income group



LISTENING POST

And Now Glass 2

On January 17, search giant Google pulled the plug on its much talked about wearable experiment - Google Glass - and stopped sales of the smart eyewear, leading to a spate of obituaries. Not all were complimentary as the Glass was perceived to be clunky, high priced (\$1,500) and not adding too much value. But the Glass is not dead, assures Google, it's just going to be reborn. Indications are that Glass2 will be seen around the middle of June. Hopefully, the new version will be a more affordable and useful iteration.



The Space Gambit



Internet connections on earth are still patchy but we are already talking about connectivity in space. Tesla

CEO **Elon Musk's** ambitious \$10 billion Space Internet venture involves hundreds of satellites orbiting 750 miles above earth, offering not just speedier Internet service to us earthlings but could stretch all the way to the Red Planet! A five-mile Hyperloop test track just got underway and in five years time we could see the project get off the ground. Get set to talk to Mars!

Classroom Connect

What's the best way to reach kids? Through social networks, of course! Perhaps that's why the Uttar Pradesh Education Department has ordered all schools affiliated to the state board to update their academic and extracurricular activities on social networking platforms. Starting January it has become mandatory for all 600 aided, non-aided and government intermediate colleges in the state to open Facebook and Twitter accounts. That's a state keeping pace with the times.



BY RAJIV KUMAR

A Make or Break Budget

All signs point to a pathbreaking budget, the first to bear the stamp of team Modi-Jaitley (MJ), on 28 February. Recent utterances from both the prime minister and the finance minister have made it clear that the upcoming budget will be a marked departure from the business-as-usual version of July 2014. Modi has repeatedly emphasised the need for higher and sustained growth. He has made it clear that the interests of the poor cannot, and will not be, overlooked. Jaitley, on his part, has focused on the need to reignite the investment cycle and to expand public investment to shore up investment demand in the absence of a pick up in private corporate investment.

Almost on cue, the Reserve Bank of India reversed its monetary policy stance by announcing a small but highly symbolic 25 basis point reduction in policy rates. It shows that the central bank believes the government will oblige by announcing the necessary structural reforms.

An investment- and

growth-oriented budget could further cheer the market, which, in anticipation, has already risen to new heights. The question is whether MJ will be able to meet the sky-high expectations not just of equity brokers but also of the hard-nosed investing community that has so far refused to be impressed by the flowing rhetoric. Investors have held back for the past eight months, but, at the same time, given the benefit of doubt to MJ. The budget must, therefore, include measures to kick-start the investment cycle and enthruse private investors, both domestic and foreign. I think MJ is fully cognizant of this reality and is, therefore, expected to focus on the following measures.

One, while achieving the difficult fiscal deficit target of 4.1 per cent of GDP, the government will come up with a more flexible fiscal glide path for the next three years to provide itself more fiscal space to increase public investment in infrastructure and agriculture.

Two, a slew of tax reforms, including an attempt to rationalise and simplify

direct tax administration to make it more predictable and taxpayer-friendly, will be on the cards. It should include steps to eliminate the spectre of retroactive taxes; minimise arbitrary transfer pricing orders; release some revenues locked in appeals and court cases that amount to over ₹4 lakh crore; and do away with the practice of setting targets for corporate tax collection in the last quarter. Investors will respond positively to these steps.

Three, the budget will reflect on the on-going work of the expenditure management commission and take steps to make subsidy disbursement far more efficient. It may replace price-based food and petroleum product subsidies with direct tax transfer, using the Aadhar network.

Four, the government must replace fertiliser subsidy by direct tax transfer to poor and marginal farmers. The subsidy has been usurped by the middle and rich farmers so far. By decontrolling urea prices and using direct cash transfers for compensating poor farmers, who now have

bank accounts thanks to the Jan Dhan Yojna, the government will make a revolutionary advance in the agricultural economy.

Five, the GST bill must be passed in this session. The Centre is on the right track to accommodate the demands of states, and keep liquor and petroleum products out of the GST ambit for the time being. There will surely be enough time in the future to make amends.

Last, the Make in India campaign now needs to be backed up by real reforms to improve India's ranking in the World Bank's Doing Business Survey. India languishes at a poor 142 among 180 countries. The prime minister has promised to improve this by 50 ranks every year.

The investing community will be looking at the budget hawk eyed on whether these promises will be kept. If it is, the country will be well on its way to regain the 9-10 per cent growth trajectory by the time political parties start their campaigns for the next parliamentary elections in 2019. The stakes are high. ♦

Rajiv Kumar is Senior Fellow at Center for Policy Research and Founder Director of Pahle India Foundation



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Hon'ble Chief Minister of West Bengal

The Bengal Global Business Summit under the leadership of **Mamata Banerjee**, Hon'ble Chief Minister of West Bengal, achieved investment proposals worth Rs 2,43,100 crore. These proposals and exchange of business interest documents were spread across Industries, Services and Agri-businesses such as Manufacturing, Heavy Engineering, MSME, Ports, Mining, Health and Education, Power and Natural Gas, Transport and Tourism, Urban Infrastructure, Food Processing, Financial Services, Fisheries, Animal Husbandry and IT/ITeS.

In this summit, a powerhouse of industry leaders, business representatives and civil servants from across the Nation and 20 countries reposed their faith in West Bengal as an investment destination.

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No Debt Too Big

“No dream too big” is Jaypee’s motto. Right now most of its dreams are about a light debt burden, its nightmares about falling deals.

By AJAY MODI and SUVEEN SINHA

Lightning struck Manoj Gaur twice last year.

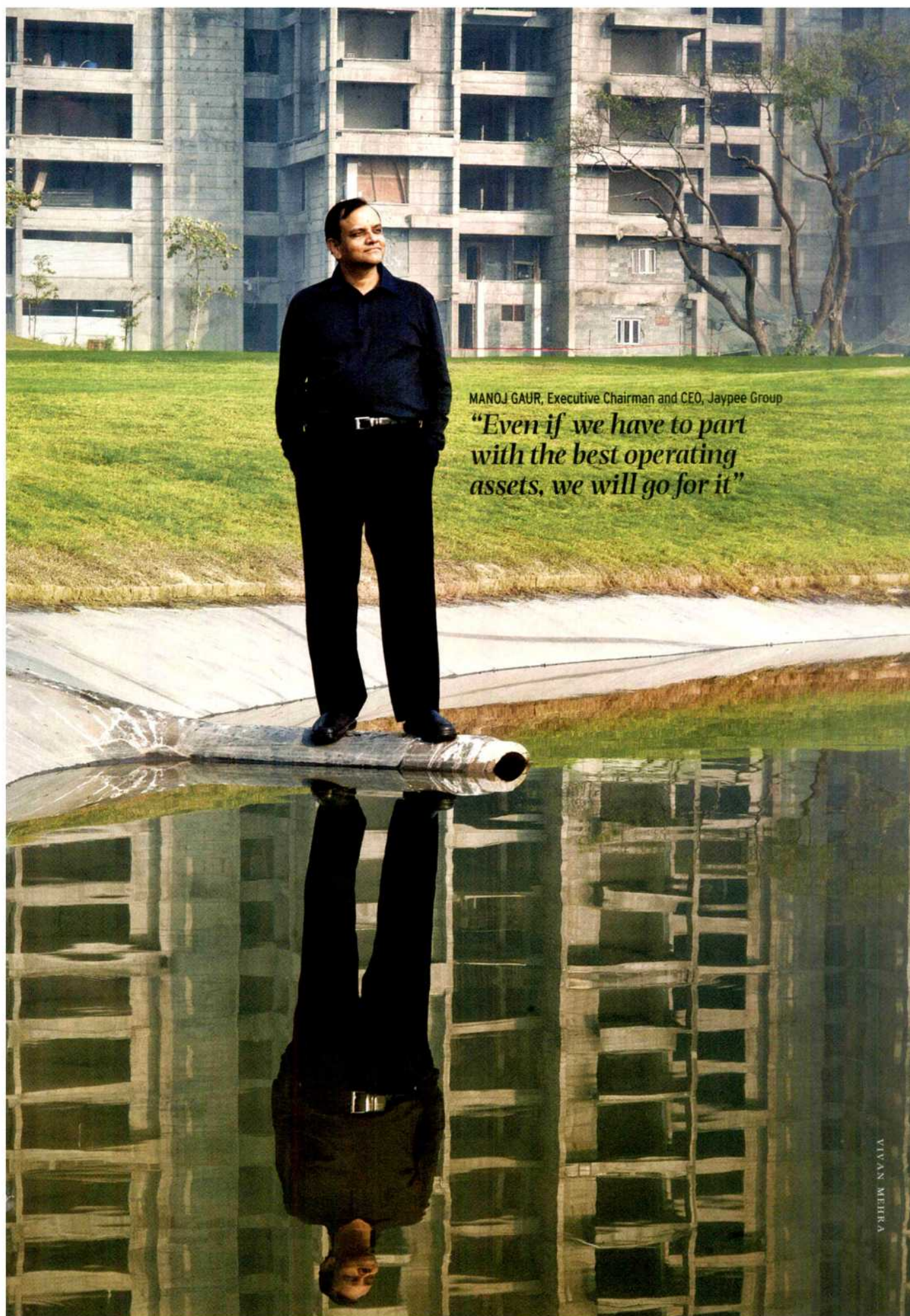
He recovered both times, but his trajectory now seems uncertain in spite of the debt load on his head becoming lighter.

That should have been expected. It is not easy when a deal on which you had been banking suddenly falls through. Twice. The circumstances were out of Gaur’s control on both occasions. Who would have thought that TAQA will go away just like that?

In March last year, it had signed up to buy Baspa and Karcham, two of Jaypee’s power plants, for ₹9,689 crore. It was not an obscure buyer. TAQA is the Abu Dhabi national energy company. It already runs a lignite-fired power plant in Chennai other than owning majority equity in a hydro power plant in Sorang, Himachal Pradesh.

Baspa and Karcham, too, are hydro power plants, and both are in Himachal Pradesh. The deal had everything going for it. Once the money came, it would reduce Jaypee’s debt substantially.

Instead, all Jaypee received from TAQA was \$9 million (₹54 crore) in penalty, because the Abu Dhabi company pulled out of the deal four months after signing it.



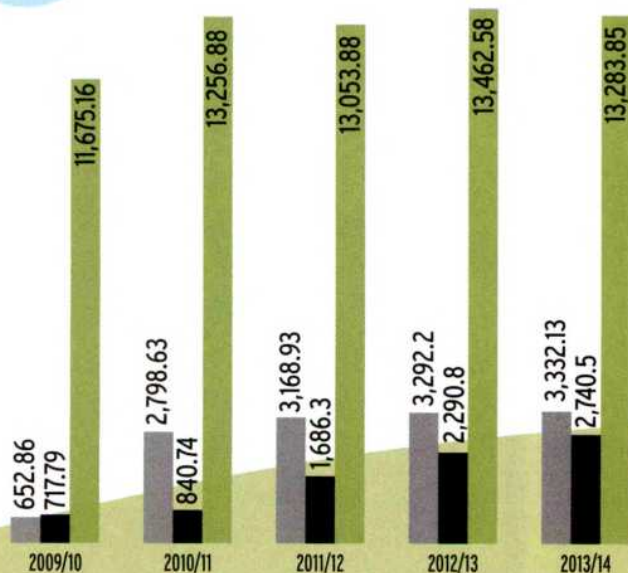
MANOJ GAUR, Executive Chairman and CEO, Jaypee Group

*"Even if we have to part
with the best operating
assets, we will go for it"*

A DEBT OVERHANG

Jaypee group took on massive debt as it expanded, leading to a surge in interest expenses

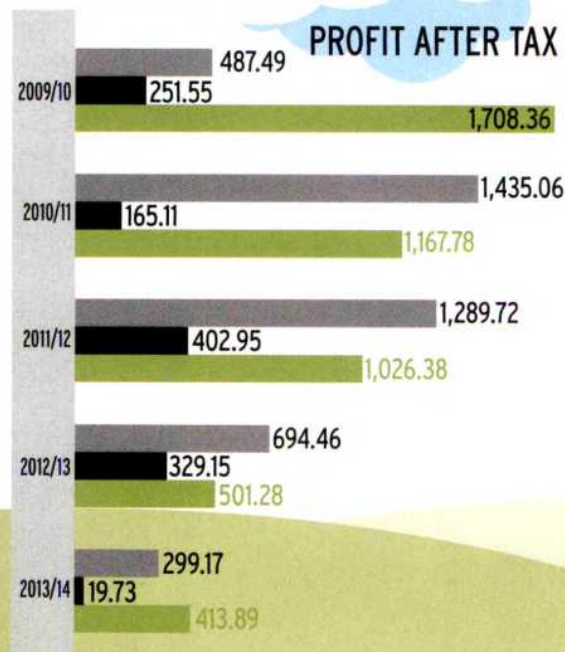
TOTAL INCOME



Standalone figures in ₹ crore source: Ace Equity

■ Jaypee Infratech ■ Jaiprakash Power Ventures ■ Jaiprakash Associates

PROFIT AFTER TAX



"That was a shock," says Gaur. Worse, TAQA did not elaborate on the reason for the pullout and gave no room for discussion. "Their entire management has changed in Abu Dhabi. Something has happened. We don't know," says Gaur.

Without wallowing in the failure of the deal, Gaur moved quickly to shake hands with Anil Ambani. "Jaiprakash Ji is a born optimist and I have inherited some optimism from him."

"Jaiprakash Ji" is Gaur's father. He started his career as a civil engineer with the Uttar Pradesh irrigation department and went on to set up the Jaypee Group, known for constructing the Sardar Sarovar dam over the Narmada in Gujarat and the Tehri dam over the Bhagirathi in Uttarakhand. The group's turnover

today stands at ₹ 20,000 crore.

Their Cross to Carry

The trouble is that debt has kept pace with growth. The combined debt of the group's three listed companies – Jaiprakash Associates, Jaiprakash Power Ventures, and Jaypee Infratech – crossed ₹57,000 crore (see *A Debt Overhang*) in 2013/14.

Construction and infrastructure companies typically have large debt: Delhi airport builder GMR Infrastructure and Bandra-Worli Sealink builder Hindustan Construction Company have their own crosses to carry (see *A Wider Malaise*).

But Jaypee's debt, distributed over many companies, towers over them. CARE Ratings downgraded Jaiprakash

EASING BURDEN

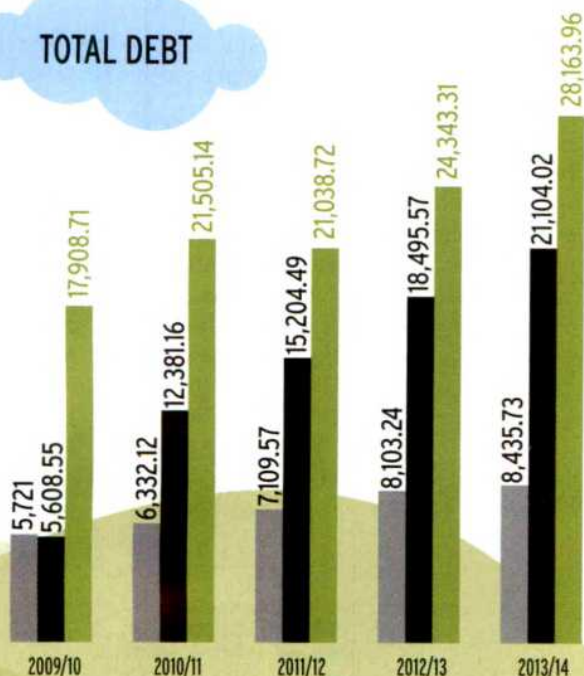
Jaypee has sold several assets to reduce its debt



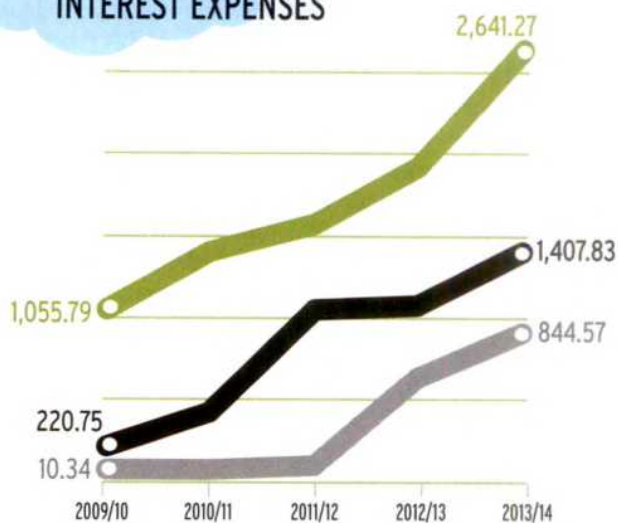
MAY 2013: Sells 300-acre land parcel along Yamuna Expressway to Gaursons for ₹1,500 crore

SEPT 2013: Sells cement capacity of 4.8 million tonnes in Gujarat to UltraTech for ₹3,800 crore

TOTAL DEBT



INTEREST EXPENSES



Standalone figures in ₹ crore

Source: CMIE Prowess

Associates' bank facilities twice at the end of last year. Jatin Babbar, CARE Analyst, however, said in the report that the ratings drew comfort from the experienced promoter's record and expertise in infrastructure.

No such comfort for the stock market, though. The share prices of Jaypee's listed companies have been in free fall (see *Shedding Value*) even as market indices have soared. And Gaur is out to arrest the fall, keeping the deal market buzzing (see *Easing Burden*). He is helped in no small measure by the fact that none of his companies is doing badly and the equipment used in his factories is thought of as good quality.

For instance, the hydro power projects have equipment bought from European and Japanese manufacturers, and India's own BHEL; they do not have a screw from China.

JAYPEE SPORTS INTERNATIONAL

	2011/12	2012/13	2013/14
TOTAL INCOME	949.7	1,057.1	1,049.8
PAT	13.7	18.4	11.9
DEBT	2,432.2	2,530.3	2,379.3

JAYPEE FERTILIZERS & INDUSTRIES

TOTAL INCOME	8.17	2.84	1.36
PAT	0.01	-38.21	-38.3
DEBT	4.35	214.35	214.35

Standalone figures in ₹ crore

MAR 2014: Sells 74% stake in Bokaro Cement to Dalmia Cement for ₹690 crore

Announces the process to sell Karcham (1,091 MW) and Baspa (300 MW) hydro plants to Abu Dhabi's TAQA for ₹9,689 crore

JULY 2014: TAQA walks out of the deal Reliance Power agrees to buy three hydro plants (1,791 MW)

AUG 2014: Sells Panipat-based grinding unit to Shree Cement for ₹360 crore

SEPT 2014: Reliance Power backs out of deal Sajjan Jindal's JSW Energy wants to buy Karcham and Baspa plants for ₹9,700 crore

DEC 2014: Sells 4.9 million tonnes cement capacity and 180 MW thermal capacity in MP to UltraTech for ₹5,400 crore

Kumar Mangalam Birla, Chairman of Aditya Birla Group, is believed to have been attracted to Jaypee's cement plants because of their good quality.

"Their plant is modern and state-of-the-art. The whole deal happened very smoothly," says H.M. Bangur, MD of Shree Cement, which bought Jaypee's grinding unit in Panipat last August.

Therefore, the TAQA debacle, as they say in cricket, was a wicket that fell against the run of play. "When you are responsible for an organisation with thousands of people, when you see that banks are supporting you, you have to show good footwork," says Gaur, again invoking cricket.

There are two things other than cricket that appear frequently in conversations with him: old Hindi films and

uncertainty and tariff issues. The uncertainty was apparently triggered by the Supreme Court's order on the same day that cancelled 214 coal block allocations.

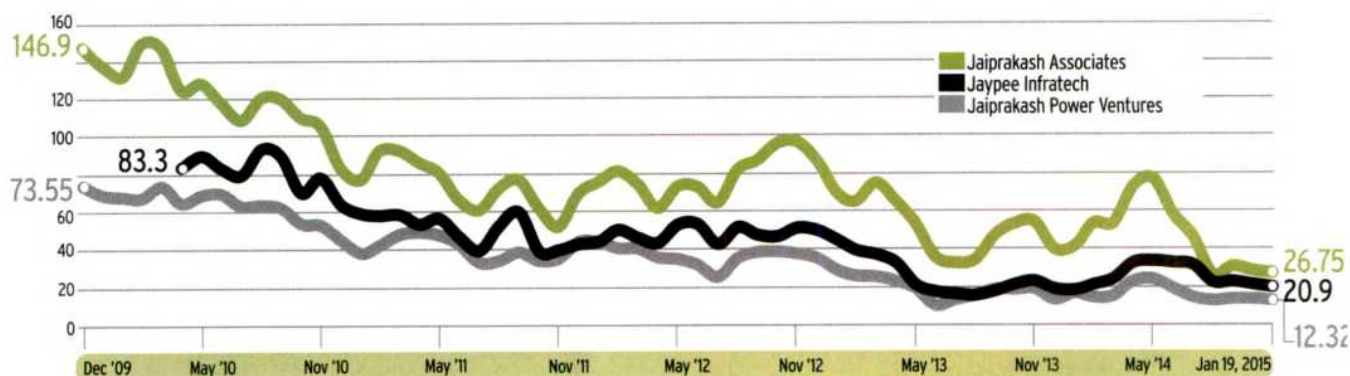
But it was not long before Gaur had another buyer. Sajjan Jindal, CMD of JSW Energy, sent word that he wanted to step into Ambani's shoes.

"I did not contact them. Within 24 hours of sending the message, Sajjan Jindal flew and met Jaiprakash Ji," says Gaur. Jindal was not available for comment. But he looks committed to the deal.

This is a definitive agreement, unlike the one with Ambani. Moreover, JSW Energy's stronger cash flow gave greater comfort. With the deal, it is now JSW Energy that is poised to become the biggest private sector hydro power

SHEDDING VALUE

The Jaypee group's listed companies have taken a pounding on Dalal Street



their songs, and God. He attributes the next chapter in the story of his hydro power plants to divine intervention. Interestingly, his belief is rooted in real life.

Anil Ambani had seen Jaypee's Vishnu Prayag project a number of times on his visits to the much-revered shrine in Badrinath. The day TAQA pulled out, July 24, men from the Anil Dhirubhai Ambani Group got in touch with Jaypee to say they were interested.

Ambani was looking to buy a third plant, the one at Vishnu Prayag, along with the ones at Baspa and Karcham that TAQA had sought. The acquisition could have made Reliance Power the country's biggest private hydro power player. The plants, with an estimated asset life of over 50 years, would have contributed to the company's revenue from the first day. This seemed another match made in heaven, only better.

That was when lightning struck a second time.

Wedding Bells

On September 24, exactly two months after signing the deal, Reliance Power walked out of it citing regulatory

producer in the country. In Gaur's colourful language, with Ambani it was just an intent to marry; with Jindal the engagement has taken place and only the wedding vows are to be taken.

Jindal, says Gaur, had spoken to him earlier to explore a joint venture in power. But Gaur's mind, for reasons obvious to anyone aware of his debt mountain, was set on selling assets.

Master of None

Has that single-minded pursuit made him overlook elements of strategy? With the flurry of deals, Jaypee has reduced its presence in power and cement, but not exited either, ending up a bit player in both. All major business groups make it a point to be among the top two or three in their areas.

Surely, Gaur would have similar ambition. Will he be happy being the fourth- or fifth-largest in cement, compared to third earlier? He will be left with only 12 plants, compared to 19 before the debt-reduction drive started. He will have just one hydro power plant left in his portfolio.

down from three, to go with his three thermal power plants.

"There will be opportunities for future growth," says Gaur. The group will claw its way back when things look up. "We will consolidate and Jaypee will stay in cement, hydro and thermal power, and be a significant player in health care, hotels and real estate."

Those who claim to know Gaur and Jaypee well say he might not show the same determination towards fertiliser, a sector he entered by buying Kolkata-based Duncan's plant in Kanpur in 2010, and semiconductors, a project that has been in limbo with no mean contribution from the UPA government's inactivity.

Getting out of those two will go some way to quell the clamour against his rapid diversification of recent years.

Damn Diversification!

Last July, Edelweiss had a buy recommendation on Jaypee Associates, but cut its target price to less than half two months later in the aftermath of the deal dallying. Regulatory issues had arisen for real estate projects in Noida, where Jaypee is building the sprawling, 1,125-acre Wish Town. The brokerage house also frowned upon Jaypee's diversification into unrelated businesses of health care, fertiliser, and semiconductors.

On the face of it, the most unrelated of businesses Jaypee entered in recent years was Formula 1. However, look deeper and you would see it as a clever ploy to showcase the real estate around the Yamuna Expressway, where Jaypee has the right to develop five townships. The showcase now has a thick curtain of uncertainty on it, as Formula 1 bosses, for the time being at least, are not holding races in India.

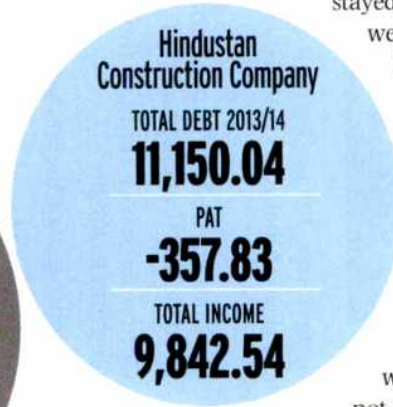
Diversification would not have been an issue in the heyday of expansion – much of it leveraged – by Indian companies before the financial crisis hit the world in 2008. Since then, it has gone out of fashion.

Gaur says nobody discussed debt-equity ratios back then. "The ratio is always important, but more important is the promoter's commitment to service loans. We always service our loans regularly and timely."

He admits to only one mistake, which most analysts

A WIDER MALAISE

Other big infrastructure giants, too, have piled up debt



Consolidated figures in ₹ crore
Source: Ace Equity

and economists also made: predicting high growth for India's economy. But while the analysts and economists stayed disinterested, Gaur

went ahead and built big assets, none bigger than the 165-km Yamuna Expressway that gobbled up ₹13,000 crore.

"The group's loans kept on rising with expansion while its assets did not turn productive the way they were expected to, nor did their valuation rise," says a brokerage analyst who declined to be named.

Overcome with Overhang

Gaur's arguments fall on deaf ears, going by the loud whispers of a debt overhang on his group that refuse to go away. Gaur says whispers, rather than real issues, beat down his shares. "I don't want to sound critical, but the way our shares have been beaten is not right. We took debt but we have invested in creating assets. We have completed all projects. Not a rupee from the money raised through IPO, FCCB or QIP was kept in the bank. It is very easy to go in for a CDR. We did not."

IPO, initial public offering, raises money from the public. QIP, qualified institutional placement, does the same from fund houses. FCCB, foreign currency convertible bonds, raises money from overseas investors. CDR, corporate debt restructuring, is the mechanism by which banks extend terms of loans and adopt other means to help businesses pay back.

Gaur says he does not need a CDR because he is already moving heaven and earth to reduce debt. The deals he has struck will reduce it to below ₹50,000 crore. That, he believes, would be within reasonable limits for a group of its size. "Jaiprakash Ji is very clear that we should not give any pain to the banks. Even if we have to part with the best operating assets, we will go for it."

What if lightning struck a third time? "What if JSW pulls out of the deal?" a newspaper reporter asked Gaur after the announcement was made.

"What is the guarantee that your newspaper will come out tomorrow?" Gaur shot back.

The newspaper did. All eyes on Gaur now. ♦

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Chairman

STATE BANK OF INDIA

GROWTH IN ADVANCES (%) **15.7**
NET NPA RATIO (%) **2.57**
CAR (%) **12.33**
CAPITAL REQUIREMENT (₹ CR)

1,25,813



V.R. IYER

Chairperson and Managing Director

BANK OF INDIA

28.12
2.00
10.97
CAPITAL REQUIREMENT

29,759



V.S. KRISHNAKUMAR

Managing Director and CEO

CANARA BANK

24.32
1.98
10.19
CAPITAL REQUIREMENT

27,325

Consolidated CAR as per Basel III. Capital allocation based on market share of current risk weighted assets of PSU banks. Capital includes both tier-I and tier-II. Growth in advances and net NPA ratio (YoY) as on 2013/14; CAR as on Sep 2014. Source: Company annual reports, RBI, BT Research

CRISIS

PSU banks have the onerous task of raising an enormous amount of capital in four years to stay in business.

By ANAND ADHIKARI



M.S. RAGHAVAN

Chairman and Managing Director

IDBI BANK

0.7
2.48
11.71

CAPITAL REQUIREMENT

23,630



ARUN TIWARI

Chairman and Managing Director

UNION BANK OF INDIA

10.1
2.33
10.23

CAPITAL REQUIREMENT

20,577

The 150-year-old Allahabad Bank has weathered the Swadeshi movement, survived the global monetary crisis of 1913, witnessed two World Wars, seen the nationalisation of banks and fought intense competition from the private sector. But it probably never had to face a situation it is confronted with now.

The Kolkata-based public sector bank stares at an uncertain future with mounting non-performing assets (NPAs), worsening asset quality and a falling capital adequacy ratio (CAR) of just 9.99 (the worst among state-owned banks). It needs to raise an estimated ₹11,000 crore within four years to meet the new CAR norms for banks that have kicked in from April 2013 in a phased manner and are expected to be fully implemented by March 31, 2019. If it fails to do so, it could be asked by the Reserve Bank of India (RBI) to stop handing out any fresh loans. Not a prospect that any bank would relish.

Twenty-five other PSU banks face a similar situation. These banks – including household names such as the State Bank of India (SBI), Punjab National Bank, Bank

of India and Canara Bank – need to raise an estimated Rs 4.60 lakh crore capital within the next four years.

CAR is a bank's buffer against current and future losses. Just five years ago, Allahabad Bank's CAR stood at 13.62 per cent. Worsening CAR has a debilitating effect on a bank's capacity to meet liabilities and manage credit and operational risks.

PSU banks account for two-thirds of India's banking system. The capital shortage looming before them threatens the nation's ambition of achieving over 10 per cent GDP growth and having a bustling manufacturing sector through the Narendra Modi government's Make-in-India initiative. It also practically bids adieu to the dream of emerging as a global investment destination, simply because banks that cannot raise enough capital to meet the new CAR norms risk being told by the RBI to stop giving out fresh loans.

"It's like driving a car on a near empty tank," jokes a private banker. Rakesh Sethi, CMD of Allahabad Bank isn't amused by talks of a capital shortage for the bank. "Our capital adequacy at 9.99 per cent is well above the regulatory requirements," says Sethi. Allahabad Bank may meet banking regulator RBI's current floor of 9 per cent, its capital adequacy is nowhere near what is required in the immediate future. Basel III, the third in a series of accords arrived at between the world's economies in 2010 following the global financial crisis in 2008, requires banks around the world to maintain a minimum CAR of 11.50 per cent by March 31, 2019.

Allahabad Bank can't be blamed entirely for its poor CAR. Besides rising NPAs, one main reason for the falling CAR is inadequate capital infusion by the bank's 59 per cent owner – the President of India, who owns the equity on behalf of the government. Successive finance ministers have been stingy about providing capital to state-owned banks. As a result, over the past five years the CAR of almost all the PSU banks have

BANKS WITH WORST CAR



RAJEEV RISHI
Chairman and
Managing Director

CENTRAL BANK OF INDIA



ANIMESH CHAUHAN
MD and CEO

ORIENTAL BANK OF INDIA



RAKESH SETHI
Chairman and
Managing Director

ALLAHABAD BANK

GROWTH *	3.1	7.9	6.6
NET NPA RATIO (%)	3.75	2.81	4.15
CAR (%)	10.65	10.88	9.9
CAPITAL REQUIREMENT (₹ CR)	16,493	12,594	11,080

*Growth in advances (%)

Consolidated CAR as per Basel III. Capital allocation based on market share of current risk weighted assets of PSU banks. Capital includes both tier-I and tier-II. Growth in advances and net NPA ratio (YoY) as on 2013/14; CAR as on Sep 2014. Source: Company annual reports, RBI, BT Research

shown a downward trend.

Even though Basel III is a voluntary standard, it urges a country's regulator to bar a bank from carrying on its core business of lending if it doesn't meet the CAR norms by the deadline. It is another matter that the deadline for complying with the norms has been extended twice from March 31, 2015 to March 31, 2018 initially and now further to March 31, 2019. Nothing stops countries from around the world to ask for another extension. But to avoid the ignominy of having a CAR below the new norms in case no further extension is granted, all the PSUs need to start acting immediately. A September 2014 Fitch report says India's banking system needs to raise \$200 billion to continue growing at the current rate and still meet the

Basel III norms. "The core capital position of the Indian banking system is weaker than that of many Asian banking systems that are also migrating towards the Basel III capital norms," says the report.

An Uphill Task

For PSU banks, it is a question of survival. Its owner – the government – is in no position to provide the capital since it's already struggling to bridge the widening fiscal deficit.

Of the ₹4.60 lakh crore that the PSU banks need to raise, ₹2.39 lakh crore is the equity capital in the form of Tier-I capital that must either be provided by the government or be raised from the equity market.

Now, given the government's finances, it doesn't have the resources to pump in ₹2.39 lakh crore (close to

BANKS WITH LOW CAPITAL ADEQUACY, HIGH NPAS AND STRESSED ASSETS



C.V.R. RAJENDRAN
Chairman and MD

ANDHRA BANK

9.4

3.11

10.3

CAPITAL REQUIREMENT

9,729



T.M. BHASIN
Chairman and Managing Director

INDIAN BANK

15.7

2.26

13.16

CAPITAL REQUIREMENT

9,142

25 per cent of the tax revenue) into the banks over the next four years. Historically, it has allocated less than ₹20,000 crore a year. In 2013/14 budget, out of ₹14,000 crore, the biggest bank SBI cornered around ₹2,000 crore while a small bank like Punjab & Sind bank received around ₹100 crore.

Barring a handful, most PSU banks are gasping for breath as their capital is fast eroding due to deteriorating asset quality. Faced with a crisis, a couple of months ago the government gave the go head to these banks to reduce its stake to a minimum of 52 per cent in phases. In some banks – such as Central Bank of India, United Bank of India, Bank of Maharashtra and IDBI Bank – the government holds up to 80 per cent equity. In others,

including SBI, Oriental Bank of Commerce and Bank of Baroda, its stake is around 60 per cent.

The Centre estimated that the banks could mobilise up to ₹1.60 lakh crore from the capital market over the next four years. It has proposed that the remaining ₹79,000 crore would come from the Union Budget. Since it would earn an estimated ₹34,500 crore through dividends from the banks, the net burden over four years would be no more than ₹44,395 crore, or ₹11,000 crore a year.

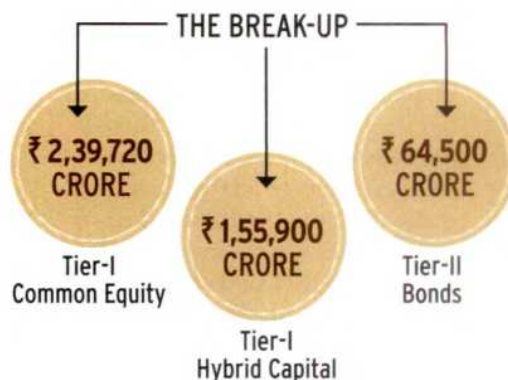
Reality Check

That sounds good and eminently achievable. But look at the reality. Even with the stock markets at a record high and Sensex crossing the 29,000 mark, the current



TOTAL CAPITAL REQUIREMENT IN THE NEXT FOUR YEARS

₹4,60,120 crore



(*Tier-I capital comprises equity, premium, surpluses and hybrid bonds while tier-II capital comprises bonds)

GOVERNMENT CALCULATION

Where the capital will come from

₹1,60,825 crore

Reduction of government stake to at least 52 per cent

₹78,895 crore

Budgetary support

₹2,20,400 crore

Tier-II bonds from the market

value of the PSU banks' dispensable stock above 52 per cent is barely ₹1 lakh crore.

It is because the shares of most PSU banks are dirt cheap with their price-to-book ratio ruling at under 1 (see *Rock Bottom Valuations*). SBI has the best ratio of 1.83. In comparison, India's second-largest private sector lender, HDFC Bank, commands more than five times the book value and the largest private sector bank ICICI Bank just under three times.

The problem is that investors do not like PSU banks because their NPAs are higher than private sector banks while their profitability is generally much lower. And that is why hitting the capital markets to raise capital is an uphill task. Take, for instance, Allahabad Bank itself where the government holding is 58.9 per cent. The bank has little headroom to raise capital by paring government stake as only about ₹1,000 crore can be mobilised through this route.

"The stake sale exercise would be value destroying for PSU banks," says a private banker. Jayant Sinha, Minister of State for Finance, agrees. "It is our responsibility to ensure that if we are going to dilute our stake, which is the stake of the people, we will do it at an appropriate valuation," he said at a bankers' meet in Pune. Incidentally, it was Sinha's father and former finance minister Yashwant Sinha who once suggested cutting the government stake in PSU banks to 33 per cent. But the younger Sinha, who knows a thing or two about valuations as a former partner of investment firm Omidyaar Network, is treading cautiously.

"The capital position of many PSU banks could be described as weak," says Saswata Guha, Director (Financial Services) at Fitch Ratings. The RBI's recent financial stability report also noted that the capital adequacy of PSU banks could fall to its lowest, 9.2 per cent, by next year under a severe stress scenario.

If the PSU banks do take the plunge to raise equity, the big ques-

WEAK SUPPORT: Budgetary allocation to PSU banks has been falling



tion is whether there is investor appetite for their shares even at fire sale prices. In January last year, SBI's equity sale of ₹8,000 crore could only go through after another state-owned entity Life Insurance Corporation (LIC) pitched in. In fact, LIC has been happily subscribing to the unsold portion of the PSU banks' equity offering. It makes sense because the equity remains within the government eco-

system. But SBI has a better CAR than many of its brethren.

Canara Bank, also trying to raise equity, has struggled for the past year. Its board approved a proposal for ₹80 crore equity offering to qualified institutional investors (QIP) in April last year. The bank started the process in October last year, but without any success so far.

Allahabad Bank has been waiting for better days despite getting a QIP of ₹320 crore approved by its board. Why wait when you need capital? "Issuing shares at less than book value hurts the existing shareholders," explains Sethi. Allahabad Bank has a price-to-book ratio of 0.68. With the RBI recently allowing a new instrument of Tier-I bonds, the bank is now exploring the possibility of raising between ₹500 and ₹1,500 crore through Tier-I and Tier-II bonds, says Sethi. Similarly, Oriental Bank of Commerce cleared a ₹1,000 crore QIP in January. There is a likelihood of LIC chipping in if there is a tepid response to their offering by institutional investors. But LIC's stake in PSU banks is already on the rise.

Prithvi Haldea of Prime Database, a database on the primary market, says PSU banks could tap depositors or global markets for raising capital.

RBI Deputy Governor R. Gandhi, however, feels reducing stake won't be sufficient since Basel-III projections are based on minimum capital requirements. While speaking in Kolkata on 'Indian PSU Banking – The Road Ahead', Gandhi said PSU banks will have to chalk out a capital raising plan over the next five years. "The banks should actively consider several options including non-voting rights shares, differential voting rights shares, golden voting rights, etc," says Gandhi, who is responsible for regulations and risk management.

Pressing the Panic Button

Gandhi has set the tone for some tough decisions, most of which are in the government's domain. SBI Chairperson Arundhati

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CA. K. Raghu
President,
ICAI



CA. Manoj Fadnis
Vice-President,
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- ICAI Knowledge Gateway
- Flexi Working Portal for Women Members
- Video Podcast
- Digital Library
- Publications Online Store
- E-Learning
- Social Media Platforms
- ICAI TV

Student Initiatives

- Cloud Campus
- Reading Rooms-cum-Libraries
- Online Mentoring

Other Initiatives

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- MoU with Employees' Provident Fund Organisation (EPFO)
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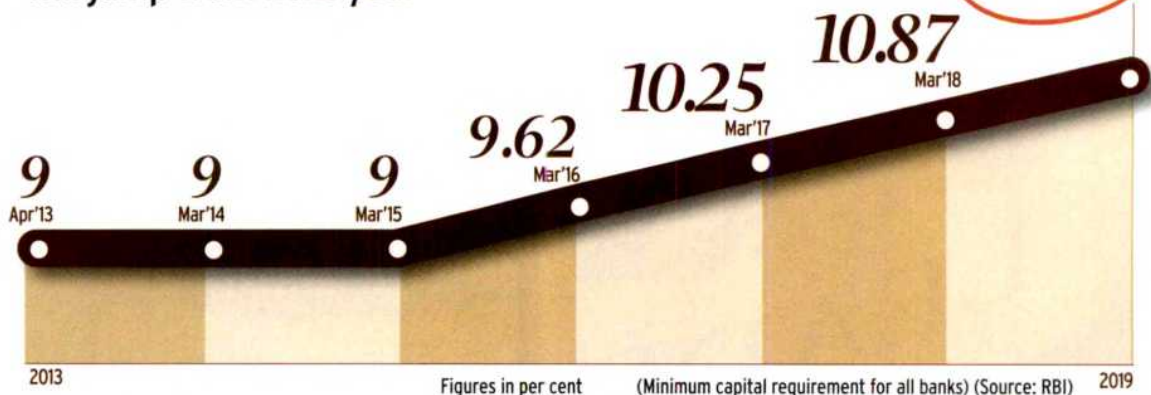
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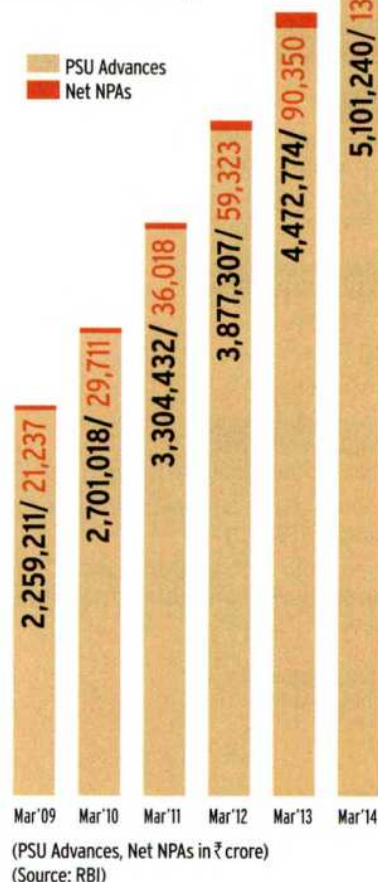
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Moving Towards New Frontiers

MAXIMUM IMPACT OF BASEL III: Banks' capital burden will jump from next year



CAPITAL GUZZLER: Credit growth is intact while bad loans are rising



Bhattacharya echoed similar views when she said the PSU banks should look at issuing non-voting shares.

But the public sector bankers have already pressed the panic button. In the current depressed equity valuation of PSU banks, Tier-I additional bond is a good option for beefing up capital, according to R.K. Takkar, Executive Director, Dena Bank. Bank of India and Corporation Bank have raised Tier-I bonds, five-year instruments which can be converted into equity later. The other capital is Tier-II capital which cannot be more than 100 per cent of Tier I capital. "The risk element is higher in new additional Tier-I bonds as these are going concern instruments. They are required to absorb losses below a pre-specified common equity tier-I ratio," says Guha of Fitch. The Tier-I bonds are part of loss-absorbing capital – this capital along with common equity has to be wiped out first in case of liquidation of a bank.

Praveen Gupta, Deputy MD of SBI, feels it makes a lot of sense for PSU banks to meet part of their capital requirement by raising these bonds. "It not only opens a new class of investors but is also much cheaper when compared against the expected return on pure equity," says Gupta, who is also the CFO of the bank. The government expects a 15 to 16 per cent return on equity from PSU

banks. The interest rate offered in Tier-I bonds is a healthy 9.5 to 11 per cent. In August last year, Bank of India raised ₹2,500 crore through these bonds at a rate of 11 per cent. In December, Andhra Bank mobilised ₹500 crore at a much lower rate of 9.55 per cent. Similarly, more than half a dozen banks are already in the market – from south India-based Corporation Bank to Delhi-based Oriental Bank of Commerce – to raise capital through Tier-I bonds.

But a PSU bank chief warns against the mad rush to raise Tier-I bonds. "If you are operating in a falling interest rate scenario, it is always desirable to wait," he says. The RBI has started the interest rate easing cycle after a long 20-month wait. There are now expectations of a 50 to 100 basis points reduction in interest rates over the next 12 months. "Given the RBI's monetary easing cycle, this is certainly not the time to lock in such bonds at the current rate," admits the CMD of a Delhi-based PSU bank on condition of anonymity. Raising these bonds today means locking funds at a higher cost. The other big issue is the limited scope of the market for these new bonds. "The potential investors in Tier-I bonds are private insurance companies, LIC and EPFO (Employees' Provident Fund Organisation), which are prohibited from investing in hy-

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ROMESH SOBTI
MD & CEO,
INDUSIND BANK

“Capitalisation would no longer be an issue if the **government reduces its stake to 33 per cent**. The problem could be of absorption in the primary market”



RACHIT GOSWAMI

brid instruments,” says Gupta of SBI.

Meanwhile, banks are also considering selling non-core assets. “The government has advised the bank to dispose of investment in noncore assets to increase internal accruals in order to reduce total capital requirement. The bank is exploring the possibility of such divestment,” says Rajeev Rishi, CMD of Central Bank of India. IDBI Bank has decided to sell its stake in NSE as well as Care Ratings. The stake sale in Care Ratings could generate ₹750 crore. “Banks could also revalue their fixed assets and real estate. This will strengthen Tier-II capital,” says an expert. Among the long-term solutions on the table are proposals to create a holding company structure or merge multiple PSU banks to create four or five large

banks of SBI’s size and balance sheet.

But more than these measures, there is a need for qualitative measures such as improving governance, providing stable management, professionalizing the board with more independent directors, non-interference of the political class and strengthening project appraisal capabilities.

The Genesis

A bulk of the blame for PSU banks’ capital crisis must go to the government. It has starved these banks of capital. While the government’s own finances didn’t permit capital infusion, even the banks failed to generate internal capital because of deteriorating asset quality. Their capital shortfall is now accentuated by the Basel-III guidelines, which require them to raise their capital adequacy every year to absorb any loss from credit, market or operational risks.

The failure of banks globally post the 2008 crash of Lehman Brothers exposed the shortcomings of the Basel-II capital requirement. Under Basel-II, the trading business (equity, bonds, derivatives) required lesser capital than the core banking business of lending to corporates and retail. The banks took advantage of this capital loophole and built large trading books. Similarly, there were other areas, like leverage, where Basel-II had insufficient capital requirements.

Basel-III has been constructed on a more robust framework in terms of capital. “The incremental credit growth will be slow because of capital inadequacy. The future credit will also depend on the ability to raise capital, recovery of NPAs and timely restructuring of assets,” says S. Ravi,

ROCK-BOTTOM VALUATIONS

HDFC Bank has a price-to-book of 5.36 and ICICI Bank has 2.8, much higher than many PSU banks

Govt. Stake	Price-to-book ratio
Punjab & Sind Bank	
79.62%	0.51
Dena Bank	
58.1%	0.51
IDBI Bank	
76.5%	0.54
Indian Overseas Bank	
73.8%	0.51
Bank of India	
66.71%	0.68
Corporation Bank	
63%	0.55
Andhra Bank	
60.14%	0.60
Allahabad Bank	
58.9%	0.68

Shareholding figures for December 2014; price-to-book ratios as on January 15, 2015. Price-to-book shows how many times the shareholders equity is valued in the market.

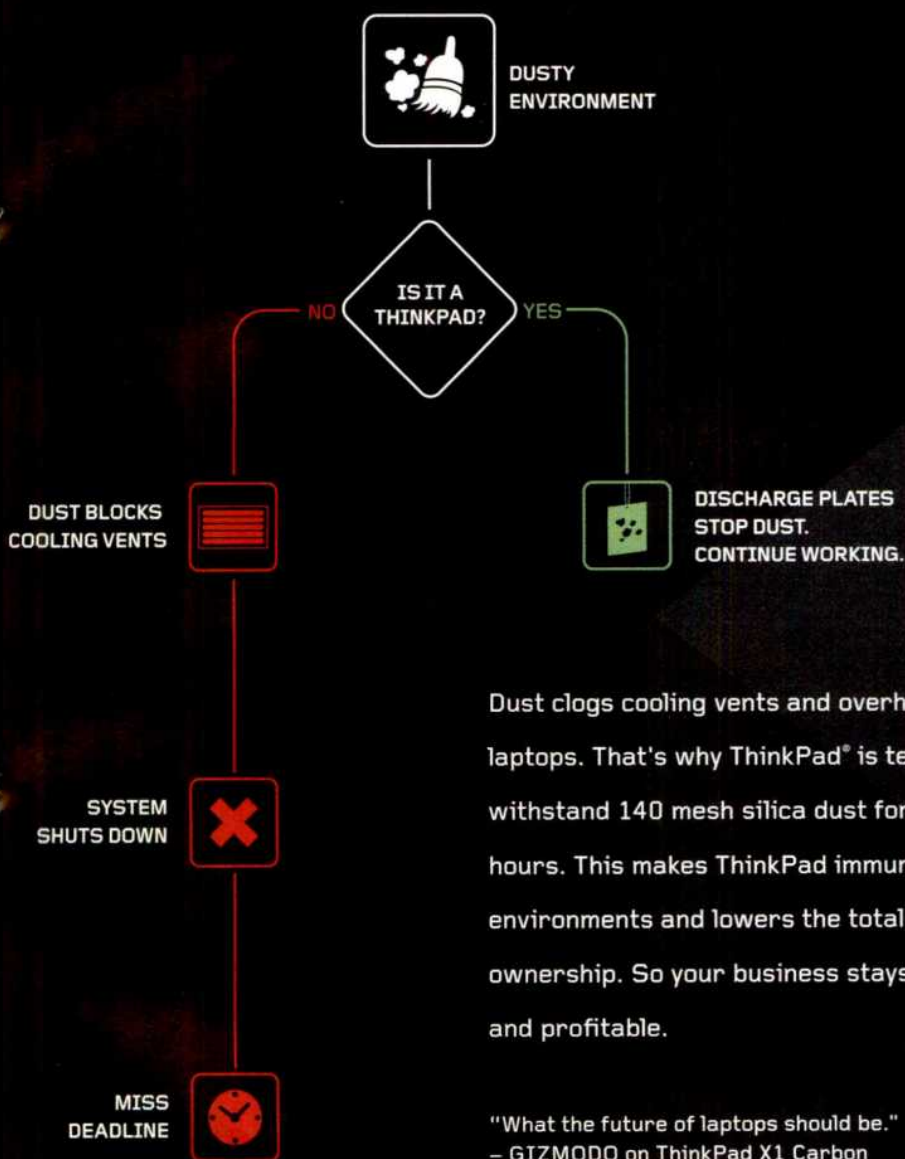
Source: BT Research

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JAYANT SINHA
MINISTER OF STATE
FOR FINANCE

“It is our responsibility to ensure that if we are going to dilute our stake, which is the stake of the people, we will do it at an appropriate valuation”

THE WAY OUT

Other options on the table to improve CAR

Sell corporate portfolio to release capital

Sell non-core assets

Raise additional tier-I capital through perpetual bonds

Revalue fixed assets

Pare lending growth to preserve capital

Focus on assets with low-risk weights like loans to companies with triple A rating

Reduce or stop dividend payments to government

Director, IDBI Bank.

The PSU bank chiefs also just cannot escape the blame for the capital mess. Given the small doses of capital infusion by the government and the deteriorating asset quality every year, the banks should have applied the brakes on their growth ambitions. Every rupee of lending consumes capital. For example, if a bank gives a personal loan of ₹100, the risk weight is 150 per cent of the minimum capital requirement of nine per cent. That's ₹13.5 on every loan of ₹100. Similarly, lending to BBB-rated corporate carries a 100 per cent risk weight. Hence, for every corporate

tribute the problem to the limited vision of the PSU bank chiefs. The CMDs are keener on demonstrating growth during their tenure (about two to three years) without calibrating it against long term needs based on asset quality and internal generation of capital. This is reflected in the growth in advances of PSU banks in the post 2008 period when everyone else around the world was conserving capital.

The PSU banks have also turned a blind eye to the deteriorating asset quality. Take the case of United Bank of India whose net NPAs are at an alarming 7.09 percent. A year ago,

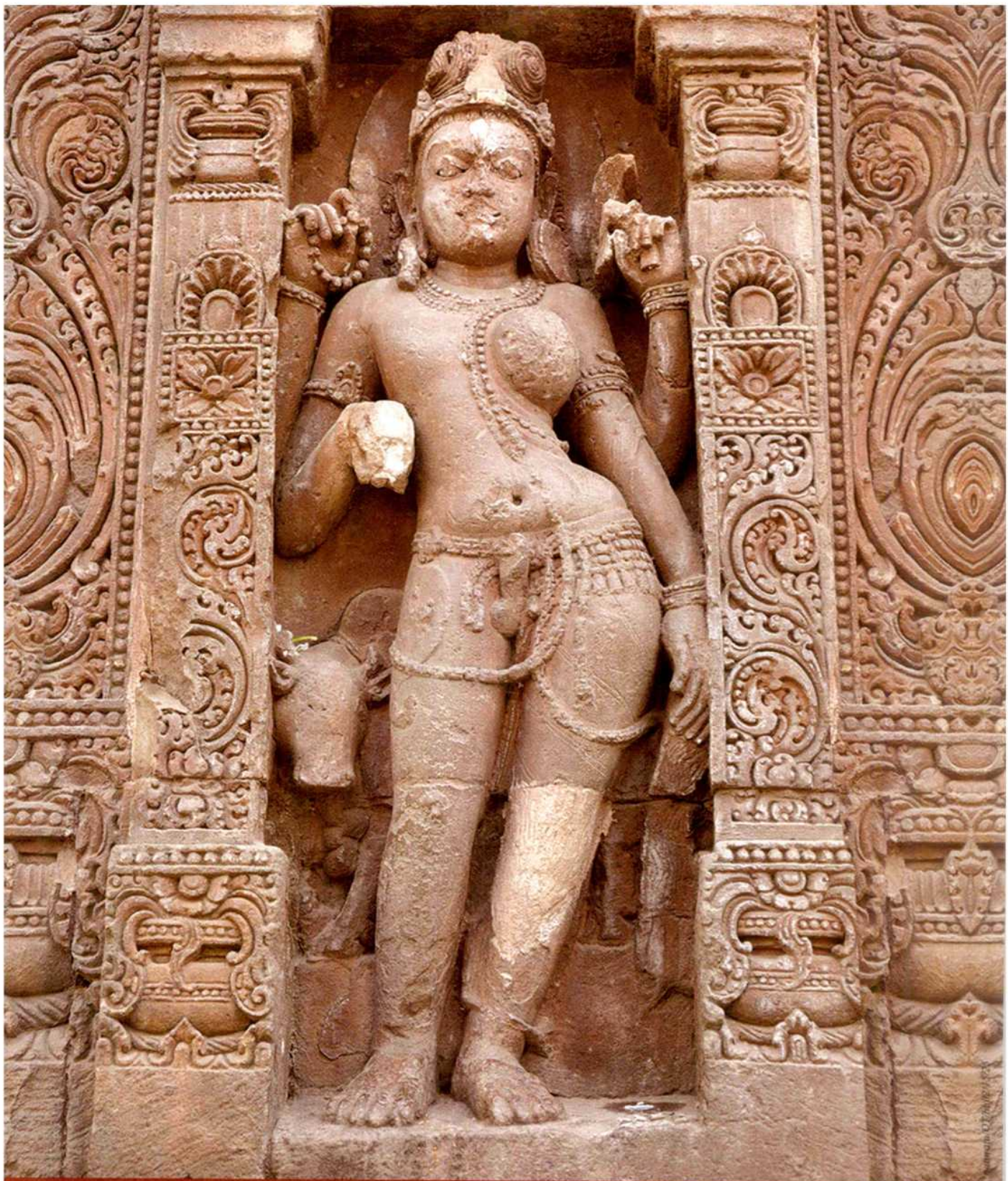
loan of ₹100, the bank has to provide ₹9 capital. “The banks could have re-balanced their portfolio by focusing largely on assets that require lesser capital,” says Rajesh Mokashi, Deputy MD at Care Ratings. Consider mortgages where the risk weight for capital is 50 per cent for loans up to ₹30 lakh. The high growth between 2009 to 2012 was mainly because of the loans sanctioned in earlier years. Ravi of IDBI defends PSU banks and says there are large term loans where disbursement takes place over a period of time. “The banks cannot turn their back on the commitment on term loans,” says Ravi.

M.D. Mallya, former MD of Bank of Baroda explains that a large component of loans went to the poorly performing infrastructure sector in the last three to four years. “Infrastructure is contributing to the deteriorating asset quality. No one would have anticipated that infra could face such difficulty,” says Mallya. There are some who at-

the RBI had to step in to direct the bank not to lend to any borrower in excess of ₹10 crore. The bank is now knocking on the RBI's door to re-start the lending business.

Another headache is the restructured assets portfolio. Central Bank of India has an outstanding restructured portfolio at 15 per cent of advances, Oriental Bank of Commerce at 12 per cent and Punjab National Bank, Allahabad Bank and Andhra Bank at 10 per cent each.

Thirdly, the Basel-III roll out has kicked in from April 1, 2013, which is putting enormous pressure on these banks. Basel-III requires banks to keep a minimum Tier-I capital of 7 per cent, out of which common equity has to be 5.5 per cent. “The capital requirement is actually lower during the initial years with higher doses of capital starting from March 2016,” says Mokashi of Care Ratings. But given the current state of PSU banks' balance sheet, the RBI is yet to introduce another Basel III guideline



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to maintain a 0 to 2.5 per cent buffer that protects banks from risks arising out of excessive credit growth.

A Bleak Future?

The stability of PSU banks is of paramount importance for the government and the economy as a whole. After all, they account for two-third of all deposits and advances in India.

unlimited capital," says the CEO of a PSU bank who attended the event. Many bankers after this meeting are convinced that one solution could be consolidation of PSU banks.

"Capitalisation would no longer be an issue if the government reduces its stake to 33 per cent," says Romesh Sobti, MD & CEO of private sector IndusInd Bank. "The problem could

pend on how economic growth pans out. "If things improve, it is better for banks and if things deteriorate, there will be a challenge," says Kumar.

The RBI's financial stability report has suggested that the ultimate enhancement in valuations could only come from corresponding improvements in asset quality, governance structures and operational efficiencies. But that's a tall order. Meanwhile, the analyst community is already painting a bleak future. The return on equity (ROE), a measure of returns to shareholders, shows a steep decline for PSU banks. At 9.71 per cent, it was woefully short of 17.06 per cent delivered by private banks. Many PSU banks such as Indian Overseas Bank, UCO Bank, Central Bank and Punjab and Sind Bank have an ROE of less than 7 per cent. This makes them far less attractive for investment. "We have been very cautious on PSU banks, except SBI and Bank of Baroda," says Saday Sinha, analyst at



**RAJESH
MOKASHI**
DEPUTY MD,
CARE RATINGS

"The banks should have done re-balancing of portfolio by focusing largely on assets that require lesser capital"

But the government has fiscal constraints as it targets containing fiscal deficit at 4.1 per cent in 2014/15. In fact, the government had adhered to the Fiscal Responsibility Act in the five years ending 2007/08. The deficit figure was at 2.54 per cent of GDP in 2007/08. But the global financial meltdown washed away all the gains.

The new government under Prime Minister Narendra Modi appears serious about sorting out the capital crisis. In early January, Modi himself flew in to Pune to discuss the various issues confronting PSU banks. "We will have to wait and watch on what sort of capital the government would provide. I don't think that the government would be able to provide

be of absorption in the primary market. If the PSU banks improve governance and management quality, the money will certainly flow in from foreign institutional and other investors. But these radical reforms are not going to happen in the next one or two years," says Sobti.

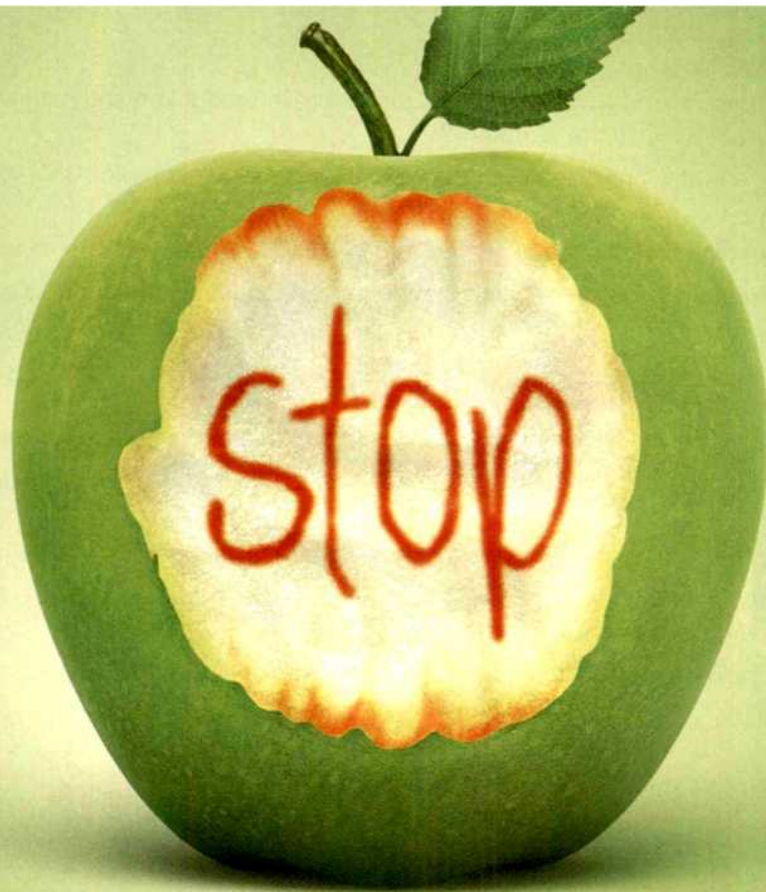
Bankers are pinning their hope on economic revival. It will sustain stock market rally and will help banks raise money at better valuations. It will also have an impact on the portfolio of corporate loans. The credit rating of many companies will improve and hence risk weight assets will go down, thereby freeing more capital. Shinjini Kumar, Financial Services Head, PwC, says the future capital situation de-

Kotak Securities. "The only bank which has a comfortable CAR is the Indian Bank." There is little hope of improvement of ROE as capital requirements and future capital raising would further impact returns.

And if the new capital doesn't arrive, PSU banks will have no option but to halt lending. Time is of essence. If the government's collective wisdom points to raising capital through stake sale, there is no better time than this. If the solution to the capital crisis lies in consolidation, what are we waiting for? ♦

RESEARCH INPUTS BY NITI KIRAN
AND JYOTINDRA DUBEY

@anandadhikari



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GUM CARE



Relative Visualization: vs. silica toothpaste without anti-germ actives; vs. non-fluoridated toothpaste

OPPORTUNITIES

- A strong domestic defence manufacturing industry can improve production and indigenization in defense procurement from current 30% to the target 70%¹
- USD 248 billion defence outlay projected over the next 10 years with scope for USD 75 billion offset business²
- Capital equipment spending for defence expected to be USD 18-20 billion dollars annually by 2020³
- Scope for USD 16 billion of domestic supply of components and sub-systems for defence aircraft over the next 10 years³

DIRECT BENEFITS FOR THE INDIAN ECONOMY

- Higher defence production in India to increase growth of manufacturing sector by 8-14%⁴
- Estimated savings of 30-50% from import substitution and low cost of maintenance due to strong domestic defence sector⁴
- Additional 1.2 lakh direct and 5-10 lakh overall jobs to be created from increased involvement of domestic players¹
- Cost advantages in manufacturing and growing talent pool of engineers to drive USD 6-10 billion exports of engineering services and components for defence by 2020³
- Very high potential for spillover effects in other adjacent sectors like automobile, high-precision engineering, homeland security, etc.

REFORMS IN THE SHORT TERM: RECOMMENDATIONS

- Integration of national resources is vital and collaboration between government and industry (PPP) will be in the national interest
- Common framework for defence procurement across Research Establishments, Ordnance Factories and Defence PSUs
- Indian private sector to be at par with PSUs, foreign suppliers for defence contract bids and liberal guidelines on partnering foreign firms for know-how
- Industry status for aerospace, infrastructure industry status for defence to provide tax incentives and facilitate funding to increase role of private sector
- Mechanism to provide protection against Foreign Exchange Rate Variation to the private sector akin to that for Defence PSUs
- Tax incentives, accelerated depreciation benefits and exemption of cess, duties on capital investments and R&D expenditure for production/shipyard companies
- Private sector involvement in artillery gun, submarine and warship programs where proven domestic capabilities can expedite order fulfillment for armed forces
- Focus on building indigenous capabilities in critical aircraft components like aerostructure, engine, avionics and armaments

We invite valued inputs from bureaucrats, economists, strategic affairs experts, industry leaders and bankers for inclusion.

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¹ – BCG Report on Defense Manufacturing Sector, 2012; ² – Edelweiss Report on Defense, 2014;

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REFORMS IN THE LONG TERM: RECOMMENDATIONS

- Target defence expenditure at 2.5% of GDP from current 1.7-1.9% - indigenous manufacturing capabilities through defence industrial clusters, mandate to locally procure certain percentage of ancillary requirements
- Flexibility in key areas like management control, product diversification and scaling up clauses to attract investments and ease transfer of technology from foreign firms post the recent hike in the FDI cap
- Investor friendly tax treatment for the defence sector in the proposed GST framework
- Implement corporatization of Ordnance Factories & liberalize investment through private sector strategic alliances with Defence PSUs, including 'BUY vs BUILD' acquisition of private sector shipyards by financially strong PSUs
- Defence and aerospace incubators with common R&D infrastructure and support facilities for MSMEs; PPP to support sector specific skill development initiatives
- Allocate products and services for MSMEs in support and maintenance activities related to high value-contracts
- Increase allocation for Technology Development Fund from INR 100 crores to INR 500 crores; set up Patent Pool Fund to support Intellectual Property development by MSMEs
- Prioritize development of propulsion, weapon systems, military electronics and communications as core manufacturing capabilities



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Source: Kinsey Report on Indian Defense Industry, 2013; ⁴ – Vijay Kelkar Committee Report, 2004

Checking into India

Despite tough economic conditions, a few global hospitality chains have managed to get a foothold.

By **MANU KAUSHIK**

The only flaw with success is that it is often short-lived. In 2005, when Carlson Rezidor Hotel Group launched its upper-midscale brand Park Plaza in Gurgaon, Delhi's satellite city had just three branded hotels – the Trident, the Bristol and 32nd Milestone. Supply of hotel rooms was minuscule compared to the demand in a city that was fast emerging as an IT outsourcing hub and the preferred headquarters for MNCs in India.

Several local and global hotel chains were eyeing Gurgaon at the time, but only a few had signed contracts to build hotels. Carlson was both lucky and smart with its Park Plaza. "We were clearly ahead of the competition. Nobody imagined that Sushant Lok could fetch \$250 per night [around ₹1,000 as per 2005 currency rates]. The occupancy levels were above 90 per cent," says K.B. Kachru, Chairman (South Asia) for Carlson. The hotel broke even in a little more than three years, a record in an industry where the gestation period is typically five to seven years.

Cut to 2014. Gurgaon has more than a dozen branded hotels with 5,190 rooms. About 1,750 more rooms are likely to be added in the next five years. Occupancy levels have crashed to 55 per cent or so. The Park Plaza is now selling rooms at ₹5,250 per night on average. Carlson – with brands like Radisson – still enjoys an edge over other international chains jostling for supremacy in a suddenly crowded Indian hotel market. But others were not so lucky. Thailand-based lebua Hotels and Resorts had a rough start after it cancelled a deal in 2012 for its debut hotel in Delhi's Dwarka because the owner was not

RACHIT GOSWAMI

RAJEEV MENON

Area Vice President (South Asia),
Marriott International

"In terms of being a pure management company, the only way we can differentiate us is when we deliver better results than our competitors. Whichever segments we want to operate in, we want to be the best in class"



Scaling Up: The Race to Add Rooms

BRAND - INTERNATIONAL	2004	2014*	~%	10-YR CAGR
Carlson Rezidor Hotel Group	851	6,089	616%	24%
Marriott International	1,299	5,642	334%	18%
Starwood Hotels & Resorts	1,598	5,617	252%	15%
Hyatt Hotels & Resorts	2,047	4,822	136%	10%
Accor**	287	4,649	1520%	49%
InterContinental Hotels Group	269	2,994	1013%	31%
Wyndham Hotels & Resorts	426	2,337	449%	21%
Hilton Hotels & Resorts	171	1,468	758%	27%

Figures are number of rooms *Till September 2014 **2006 onwards Source: HVS Research

willing to make the investment required to meet the brand standards.

For the foreign chains looking for easy pickings in a supply-starved nation, India has proved to be an unexpectedly complex market to crack. The initial easy years lulled them into complacency and led them into making serious mistakes. A bloodbath ensued between 2008 and 2014, testing their endurance and resources. Some have emerged wiser and stronger. Some are still licking their wounds. So which are the chains that have deciphered this cruel market, spotted the opportunities and cracked it open, and which have lost the plot?

Besides Carlson, chains such as Marriott International, Hyatt and Starwood seem to have done well due to their ability to tie up with a stable group of developers, their strong distribution network and consistency in delivery of services across a bouquet of brands. French group Accor has got its act right in the mid-market segment, and tried to create a niche for itself in the convention business but struggles with its upscale brands. Others such as Hilton and InterContinental Hotels Group (IHG) are facing issues with developer-partners, and getting the right brands in the country.

The Scale Trap

The first foreign chain to put its flag in India was perhaps IHG, which tied up with the Oberoi group some 49 years ago to create a five-star hotel in Delhi. A few others arrived sporadically, but the real invasion of the foreign chains began in the late 1990s and early 2000s, with the coming of the world's biggest hotel operators – Marriott, Starwood, Hyatt, Accor and Hilton. They came in, set up development teams to scout for partners to build a base and began an aggressive onslaught. "It was a mad rush between 2005 and 2007. Stock markets were booming, disposable incomes were rising, and inbound and outbound travelling was growing

tremendously," says Achin Khanna, Managing Director (Consulting & Valuation) at hospitality consultancy HVS South Asia. "The economic slowdown spoiled the party."

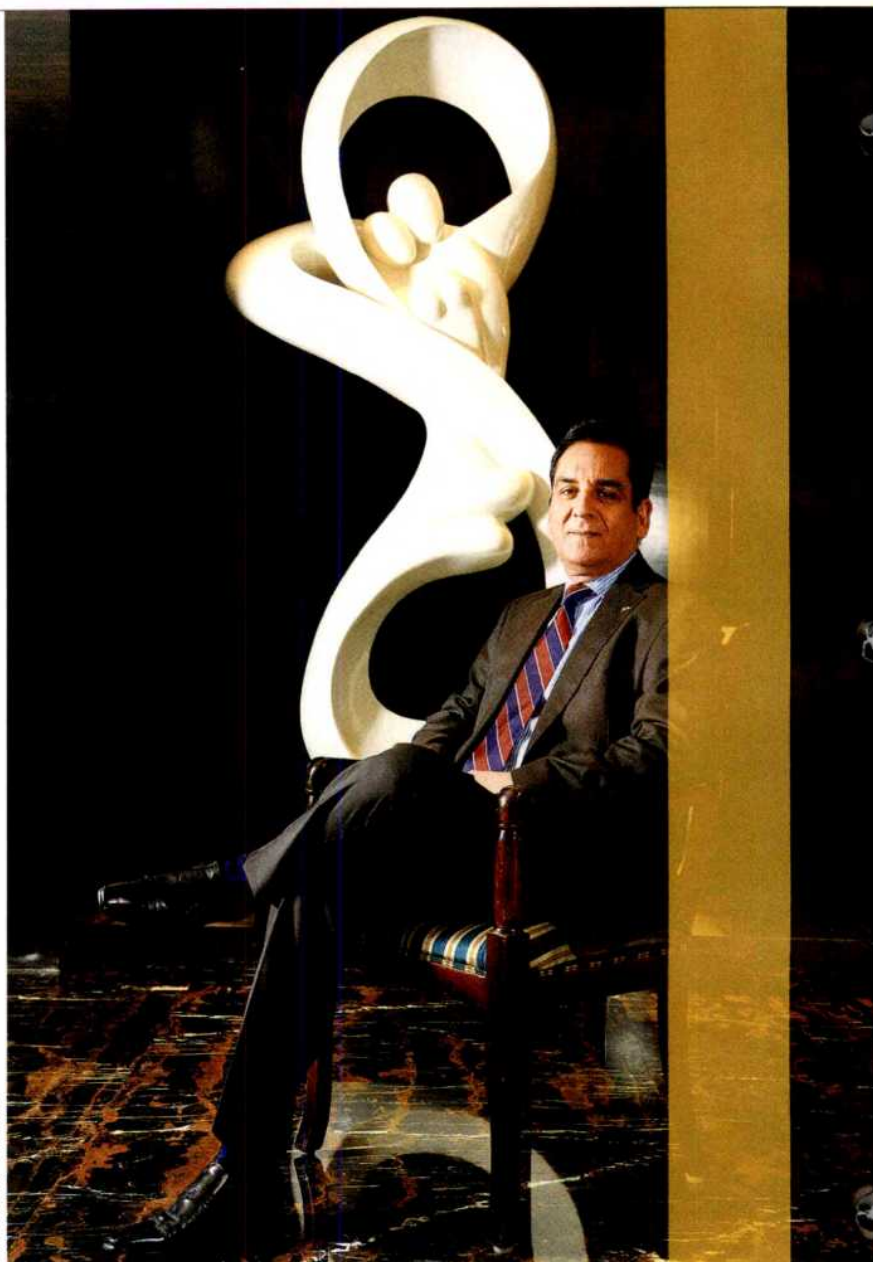
In the early years, a lot of these chains went on a signing spree – signing an average of 25 contracts a year. Unlike their local counterparts – the Taj, ITC, Oberoi or the Leela, which at that point, preferred to own their own hotels – foreign chains followed the management model, where they lent their brand names to property owners and operated their hotels in return for a fee.

K.B. KACHRU

Chairman (South Asia),
Carlson Rezidor Hotel Group

"We are present in 75 per cent of state capitals and the plan is to cover each one of them"

SHEKHAR GHOSH



What's Working, What's Not

An assessment card of the global chains

HOTEL OPERATOR	BRANDS*	STRENGTHS	WEAKNESSES
	Radisson Blu, Radisson, Park Plaza, Park Inn by Radisson, Country Inns and Suites	Ability to scale up fast without any hiccups	Brands are not easily distinguishable
	The Ritz-Carlton, JW Marriott, Marriott Courtyard by Marriott, Fairfield, Renaissance	Commands premium on room rates, occupancy	Spent more money in building some hotels
	Four Points by Sheraton, Aloft, Le Meridien, The Westin, Sheraton, Luxury Collection	Working with a strong set of developer-owners	Struggling with Meridien brand, which lacks product consistency
	Grand Hyatt, Park Hyatt, Hyatt Regency, Hyatt Place, Hyatt	Strong foothold in food & beverages, healthy relationship with promoters	No brand in the budget category
	Pullman, ibis, Sofitel, Novotel, Formule 1, Grand Mercure	Strong brand recall among mid-market segment consumers, conventions business	Has not been successful with building upscale brands in India
	Crowne Plaza, Holiday Inn, Holiday Inn Express, InterContinental	Global portfolio of brands that cut across different segments	Not focused on establishing flagship brand InterContinental in India
	Wyndham Grand, Ramada, Howard Johnson, Days Hotel	Follows the franchisee model, which the hotel chain claims is owner-friendly	Brand recall is low, minimal control led issues with maintaining brand standards
	Hilton Garden Inn, Double Tree by Hilton, Hampton by Hilton, Hilton	One of the best loyalty programmes; high repeat customers	Still trying to come out of failed marriages with Oberoi Group, DLF

*Not exhaustive, includes prominent brands

The name of the game at that point was to ramp up quickly. Every hotel operator appeared to be in a rush to reach the 100 figure. Carlson, Marriott, Starwood and Accor took a rapid lead. Between 2004 and 2014, Carlson added 5,238 rooms, the most among global chains, and emerged as the third-largest player in India in terms of room inventory – only behind Taj and ITC. French hospitality major Accor grew the fastest since entering India in 2006 (see *Scaling Up: The Race to Add Rooms*).

But is scale really a measure of success? In some ways, the unseemly

haste to expand might have led to some trip-ups. In some deals there was no sense of understanding of local market conditions. In 2006, for instance, Accor and Emaar MGF tied up to set up 100 budget hotels with an investment of \$300 million. Soon after, Hilton formed a joint venture with realty major DLF to open 75 hotels and service apartments in seven years. Both alliances failed to take off. In 2004, Accor and Interglobe Enterprises got together to develop 'Ibis' economy hotels. So far, it has 10 operational hotels and nine are under development, though recent reports

suggest the tie-up is under strain.

Daniel Welk, Vice President (Operations – India), Hilton Worldwide, blames the slowdown in the real estate sector for the failures. He says Hilton still operates DLF's asset in Delhi's Saket. "During the global downturn, DLF divested its non-core businesses and withdrew from hospitality. It was not a bad decision. The JV was the victim of circumstances post the financial meltdown," says Welk.

The Right Partner

Many feel that rather than chasing



VIVAN MEHRA

DILIP PURI

MD (India) and Regional VP (South Asia),
Starwood Hotels and Resorts

"These (diversified set of owners in India) are very different people. There's no one-size-fits-all approach to deal with them"

scale, managing relations with property owners is most crucial in India. "Till a few years ago, every developer with a piece of land wanted to build a luxury hotel. Nobody wanted to build a mid-market or budget hotel. Now people understand that investment-return equation for a luxury hotel is completely different from other segments," says a consultant.

Marriott made some mistakes on

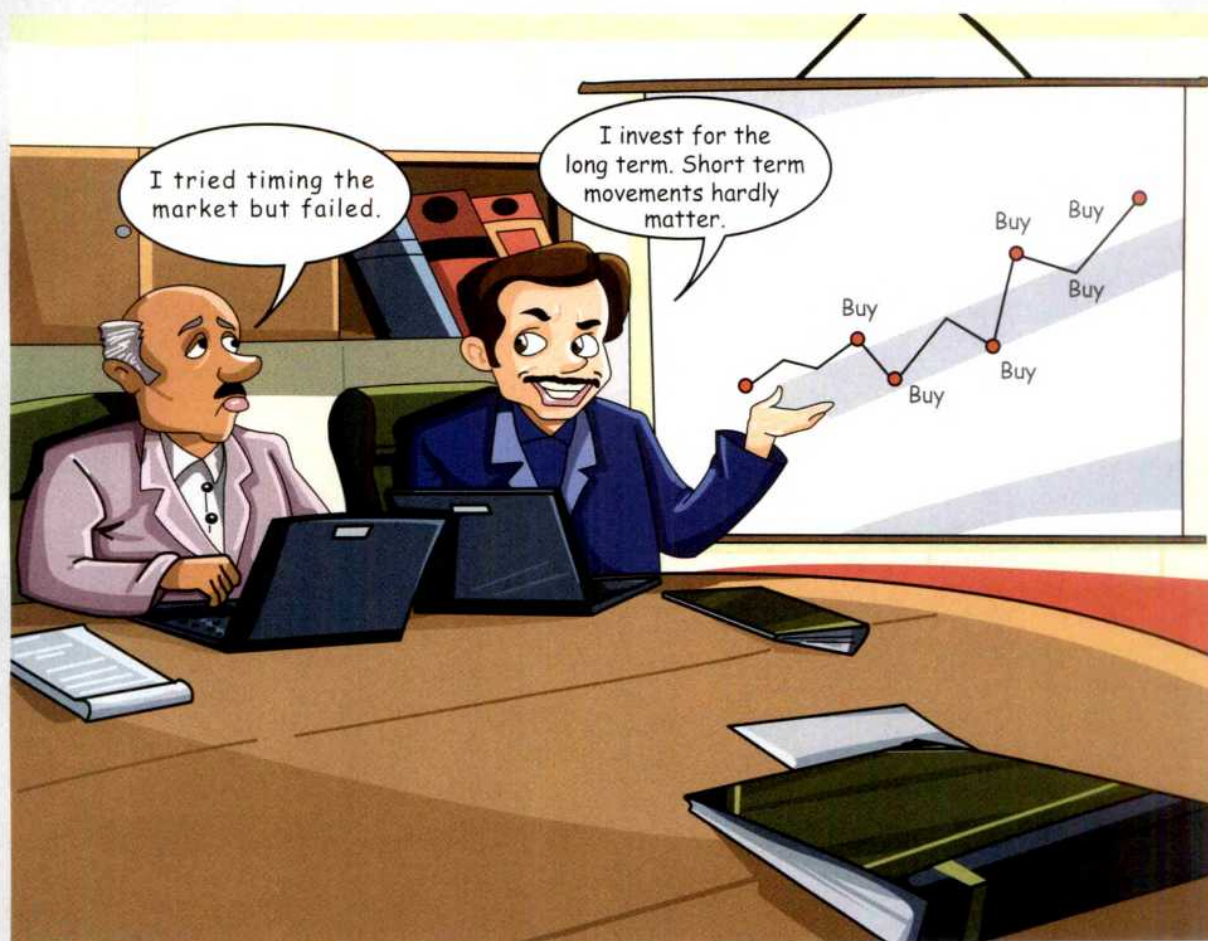
this front. In 2011, it opened JW Marriott (an upper-upscale brand) in Chandigarh, which company officials feel was a market for Marriott (an upscale brand). "We did tell the owner at the time that a Marriott would be more suited for the rates in Chandigarh," says Navjit Ahluwalia, Senior Vice President (Hotel Development) at Marriott International. HVS's Khanna disagrees. "They [Marriott] have made owners spend more," he counters.

Dealing with a diversified set of owners and still managing to keep complete control of the properties is an art which only a few operators have learnt. Unlike the US, where most hotels are owned by financial institutions which only look at returns on investment, in India there are broadly three different kinds of owners: the local big businessman who has a lot of spare cash, institutional owners and big real estate developers. Almost all of them are loath

to relinquish control and tend to interfere a lot in day-to-day running. "These are very different people. There's no one-size fits all approach to deal with them," says Dilip Puri, Managing Director (India) and Regional Vice President (South Asia), Starwood Hotels & Resorts.

Choosing the right partner and contract terms is a tricky proposition. "We tell developers upfront that Marriott is a difficult operator to deal with. Our agreements are inflexible. My pitch to owners is when you build a hotel, it is like building an airplane. It costs you millions of dollars. Are you going to negotiate and find the cheapest pilot or do you find somebody who has experience," says Marriott's Ahluwalia. "We want a bunch of 20 to 30 owners with us. That's why just 10 to 15 per cent of the proposals convert into contracts," he says.

Unlike other chains, Hilton has a series of failed marriages. It had issues



Rule 3: Never try and time your investments basis tips, market trends or economic outlook.

Everyone wants to enter the market at the lowest level and exit at the highest. But it is very difficult or rather impossible to time the market. Instead of making investment decisions on the basis of tips, market trends or economic outlook, you should consider the fundamentals of the investment instrument and invest regularly. A disciplined investment approach will help you meet various financial targets of your life.

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with the Oberoi Group over the branding strategy and with the Delhi-based Eros Group – where it was managing three hotels – over poor performance of the hotels. Hilton has just 14 hotels, way short of Carlson's 73 properties. According to Virendra Bhatia, Managing Director, Baani Group, who owns Hilton Garden Inn in Gurgaon –launched in February 2013 – the first year was challenging as the Hilton management was not stable. "In the past year, they have got their feet on the ground and things are improving," he says. Yet, for his next two hotels coming up in Manesar and Gurgaon, he is keeping options open on which chain to tie-up with.

One problem that could have plagued Hilton is the lack of local insight. Starwood's Puri says the ability to understand the need for local leadership and expertise is rare. "Almost all my counterparts in competing international chains are expatriates who come for just one-two years," he says. In Hilton, for instance, Welk joined in December 2013 after Guy Hutchinson, its previous India head, had spent only about a year.

What Hilton's experience shows is that even after a contract is signed, things can go wrong as managing relationship with owners is a constant challenge. Brands like Carlson, Starwood, Hyatt and Marriott have shown some stickiness with a group of developers. Carlson has a relationship with seven developers with whom it has done multiple hotels. With Gurgaon-based Bestech Group, it operates three hotels (two Radissons and a Park Plaza) while 49 hotels (Park Inn) are in the pipeline.

Over the past 10 years, develop-

ers like Rahejas in Mumbai, Salgaocars in Goa, Chordia (of Panchshil Realty) in Pune, and Prestige Group in Bangalore have set up multiple properties with different international operators. "It helps in bringing down the costs because of

the synergy. Developers can have common staff for functions like marketing and distribution," says Atul Chordia, Chairman of Panchshil Realty, which runs three Marriott hotels and a Hilton franchisee.

"Mature owners understand the hotel industry dynamics, so it is easy to work with them," says Harleen Mehta, Vice President (Sales Operations – South Asia) at Hyatt Hotels.

But that stickiness is increasingly difficult as developers get savvy about the right brand for their property. Take Bangalore-based developer Brigade Hospitality, which has done deals with Starwood (Sheraton Brigade Gateway), Accor (the Grand Mercure in Bangalore and an upcoming one in Mysore), and IHG (for a Holiday Inn scheduled to open this year in Chennai). Nirupa Shankar, Director, Brigade Hospitality, describes the logic behind choosing different partners – for an IT hub like Bangalore, it made sense to go with a US chain with a strong loyalty programme (Starwood), while to tap the leisure market a European chain like Accor

would resonate with the Mysore-bound tourists arriving predominantly from France.

Industry experts feel the tenure of the contract makes a difference in a hotel's performance. Long-tenure hotels are good for both promoters and hotel chains because most hotels make money in the long run. Typically, the average break-even period for hotels in India is seven to 10 years. Supply glut, low demand and high inflation have pushed the break-even period by one-two years in recent times.

"Some hotels do well with age.



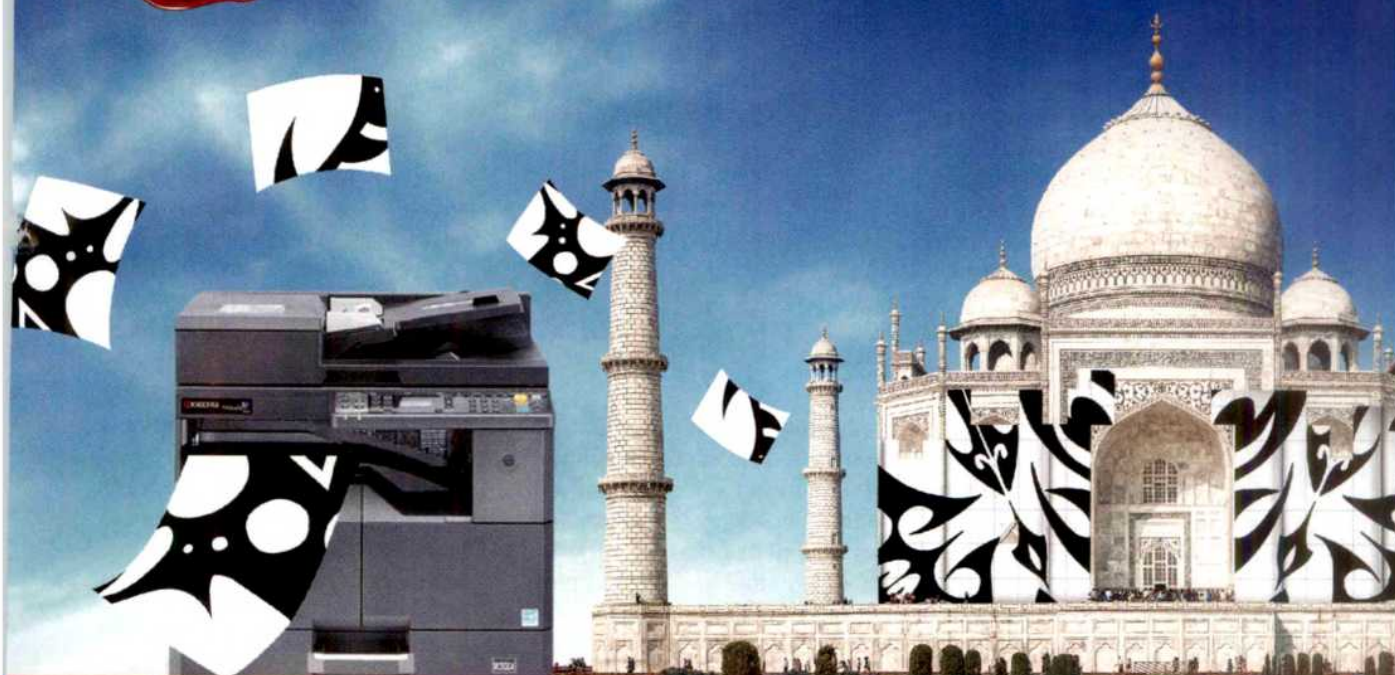
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Head (South West Asia), IHG

"We are focusing on developing more hotels under our midscale brands Holiday Inn and Holiday Inn Express to cater to the growing number of value-conscious travellers"



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We sign 25- to 30-year contracts. We are lucky to have mature owners who don't make unjust demands," says Hyatt's Mehta. Marriott too signs 30-year contracts. IHG and Hilton have 15- to 20-year contracts.

What surprises many is the way the foreign chains have made such deep inroads into a country where hospitality is perceived to be in the local gene. How have they overtaken the Oberois and Leelas and frightened the Taj and ITC into taking rearguard action? Why have developers preferred to do business with them rather than the local chains? Domestic chains have adopted the management model only recently while foreign chains took the route from the start.

Brigade's Shankar says: "It's not that we are averse to Indian players but from business point it makes sense to tie up with an international chain as they are very good with training and SOPs and employees get career growth." The global distribution system of the foreign chains is also the reason why Brigade tied up with global chains. "A third of our business is the Indian traveller but a lot of it comes from the US and Europe," she says.

The Distribution Edge

Foreign chains hard sell their distribution strength to local owners. And that has worked. Distribution is about presence at locations where guests want a brand to be. It includes having product offering at different price points – luxury, upscale, mid-market and budget. In India, hotel demand is primarily driven by corporates and conferences – around 60 per cent. Corporate executives travel around the world, so distribution for foreign chains includes their global footprint.

A hotel with better distribution is always at an advantage when it comes to corporate clients. It can capture demand from companies at different levels. "As a corporate traveller, you want to stay and have a relationship with a hotel chain be-



58.9%
Occupancy rates
across all branded
hotels in 2013/14,
when the average
room rate fell 4.3 per
cent to ₹5,531 a night

cause you collect reward points and you can redeem those points and take your family for free stays," says Ahluwalia, adding that Marriott has covered all metros, and is trickling down to smaller towns such as Ahmedabad, Guwahati, Bhopal, Indore, Nagpur, Agra and Siliguri.

Of course, not all foreign chains are equal in this respect. Hilton seems to be lagging behind in the distribution race. Its operating hotels are in metros and even its 17-hotel pipeline is skewed towards mostly metros – Delhi, Pune, Kolkata, Hyderabad, Chennai and Mumbai.

Industry observers say Carlson has done a good job in expanding its distribution network while keeping its partners satisfied. It is the largest chain at the moment in terms of hotels and has a strong pipeline. "They have a good market share," says Manav Thadani, Chairman, HVS Asia Pacific. Kachru says their hotels are present in 75 per cent of state capitals and the plan is to cover each one of them. Carlson has a mix of managed and franchisee hotels in India which many say have affected service standards and consistency in brand.

Under the franchisee model, the

property owner runs the hotel and the hospitality chain lends its brand name, technical and pre-opening support, reservation system, and its loyalty programme. "In terms of being a pure management company, the only way we can differentiate us is when we deliver better results than our competitors. Whichever segments we want to operate in, we want to be the best in class," says Rajeev Menon, Area Vice President (South Asia) at Marriott International.

Some hotel chains think otherwise. The US-based Wyndham Hotels Group follows the franchisee model, which it says is developer-friendly model. Deepika Arora, Regional Vice President (Indian Ocean), Wyndham Hotel Group, says the chain prefers this model as it allows owners more flexibility. "I was able to sell this model because we were offering everything that others were offering but at a much cheaper rate. We are not very uptight when it comes to product, fees or investments. I tell developers to meet my minimum specifications, and they can keep control of the property," she says. Wyndham has grown from five to 23 hotels in five years.

Going forward, the distribution advantage might not work for the foreign chains as the big play moves to the economy- and mid-market segment. Here, since the target traveller is Indian, it's local distribution that counts rather than global. A chain like Lemon Tree is looking to capitalise on just that.

The Right Brand Matters

As the market is maturing, a clear distinction between different chains is visible. Starwood, Marriott, Hyatt have established themselves as premium brands whereas Accor, Carlson and IHG are seen as mid-market chains. A bit ironic, considering that IHG played a part in creating India's first modern five-star hotel. But at the moment, it has mostly focused on economy and mid-market brands like Holiday Inn Express, Holiday Inn and Crowne Plaza. "Their development

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team is not keen to push the iconic InterContinental brand," says Khanna. "IHG has powerful brands like Holiday Inn but has never stayed here for the long haul. It has a long way to go," says another consultant.

Shantha de Silva, Head (South West Asia), IHG, says the company is focusing on developing more hotels under its midscale brands Holiday Inn and Holiday Inn Express to cater to the growing number of value-conscious travellers. Over the next three to five years, IHG plans to increase the number of Holiday Inn hotels to 23 from 10 and Holiday Inn Express hotels to 17 from two.

According to the HVS's Trends and Opportunities 2014 report, occupancy rates across all branded hotels remained low at 58.9 per cent in 2013/14 while the average room rates fell 4.3 per cent from a year earlier to ₹5,531 a night. Some promoters take a short-term view of the situation, and would switch off the lights in corridor, cut the food quality or maybe shut down the air conditioning in certain areas. The customers are quick to notice these changes. While it saves money on a short-term basis, it affects the hotel's brand image in the long run, and several foreign chains have paid a heavy price.

Lack of brand consistency has affected Starwood too, especially with its Le Meridien brand that it acquired globally from Air France in 2005. Starwood's Puri says there were many legacy issues with Le Meridien hotels. "They were old, not renovated, and had loose contract terms with owners. We went about securing commitment from existing owners to invest in renovating the properties. You have to be patient. Overnight success doesn't happen when you inherit a legacy," he says. In the recent past, Starwood has renovated Kochi Meridien, Jaipur Meridien and Bangalore Meridien.

Starwood entered India in 1973 when it tied up with the Oberoi Group to launch the Oberoi Sheraton in Mumbai. In 1979, ITC tied up with

Starwood to use the Sheraton brand for three properties but in 2007 Starwood decided to operate the brand on its own. In return, Starwood gave its Luxury Collection brand to ITC. Under the agreement, ITC runs 11 hotels, including iconic properties like ITC Grand Chola in Chennai, ITC Maurya in Delhi, ITC Maratha in Mumbai, and ITC Sonar in Kolkata. Starwood claims it is profitable in India, as do Marriott and Carlson.

The Road Ahead

It needs deep pockets, staying power and a lot of cultural adaptability to

survive in India. That's a tough lesson that all the big global hospitality chains have learnt so far. Going forward, the global chains are going to face a fresh set of challenges as the big three of Indian hospitality – Taj, ITC and Oberoi – are now changing their models to defend their turf.

Also, fresh challenge could come from the next set of foreign chains waiting to enter India. Kempinski Hotels, lebua Hotels and Resorts, Mövenpick Hotels & Resorts, Swissotel Hotels and Resorts are keen to expand their base, and cautiously moving. "India is a very dif-



DEEPAK OHRI

CEO, lebua Hotels & Resorts

"India is a very different market. We are choosing the partners carefully. The property owners look for immediate results. Developers have to understand it takes time to deliver performance"

ferent market. We are choosing the partners carefully. The property owners look for immediate results. Developers have to understand it takes time to deliver performance," says Deepak Ohri, CEO, lebua Hotels and Resorts, who has rejected six proposals from developers in the past year.

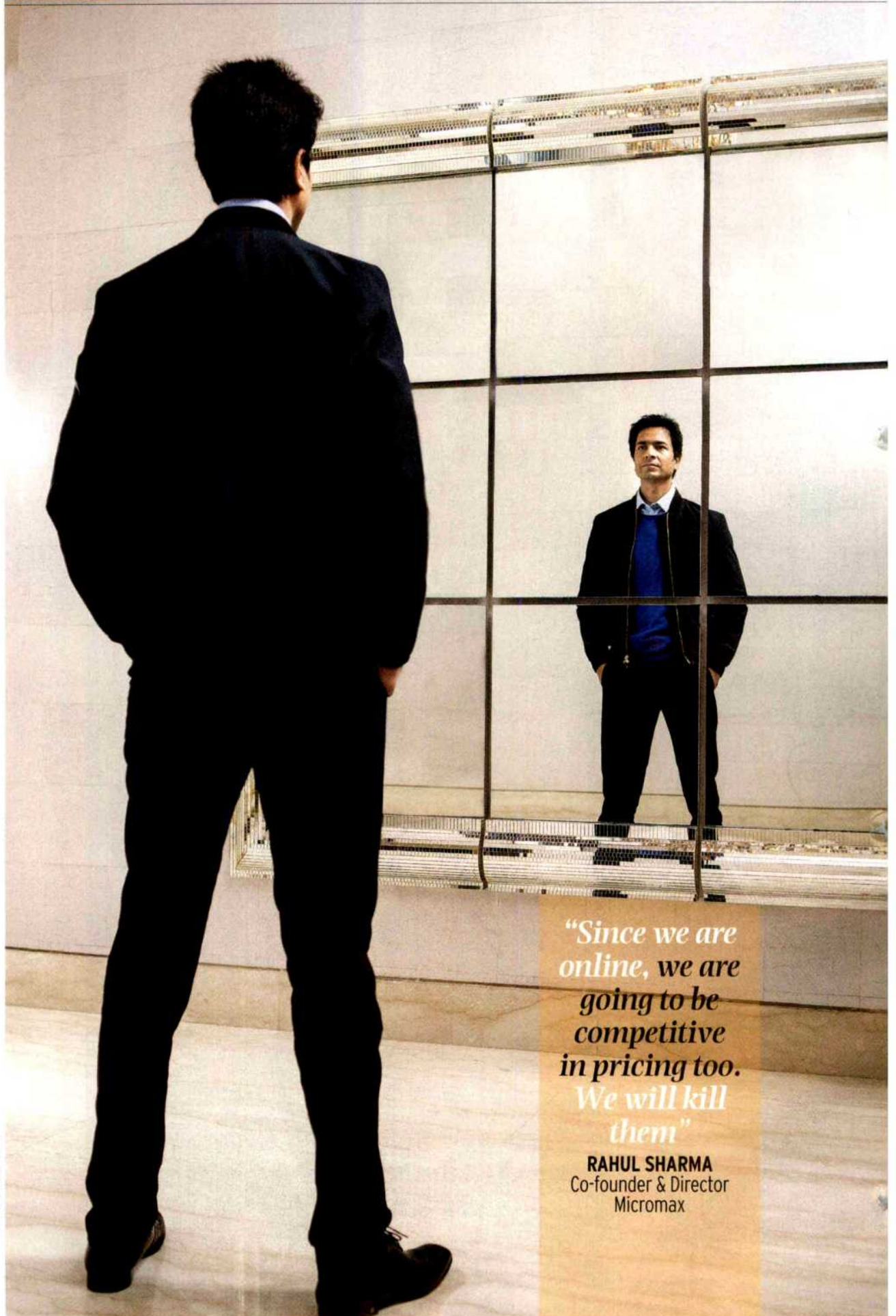
After years of slump, the hotel industry is on the cusp of the next upturn. It will be interesting to see which brands will be on the upswing. The ones that coped well with the downturn may hold the winning card. ♦

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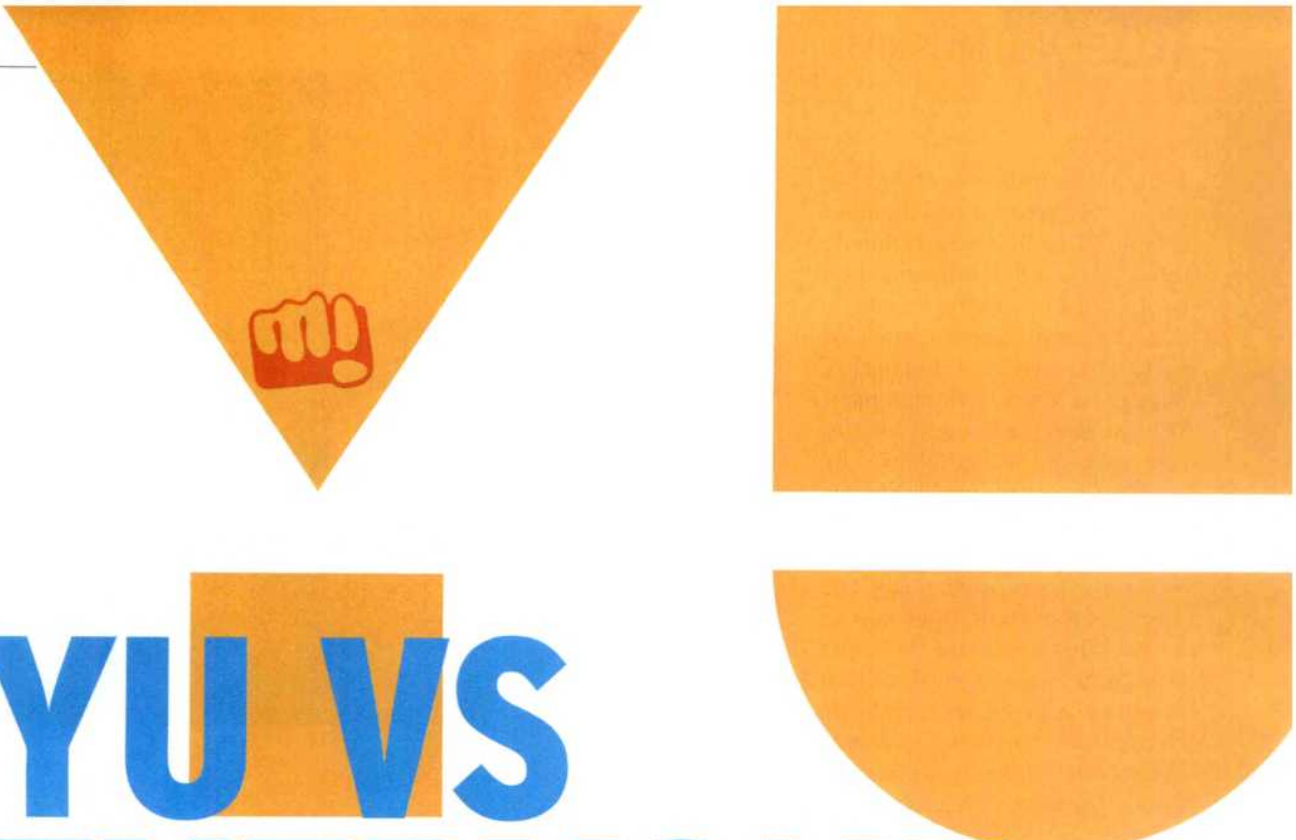
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RAHUL SHARMA
Co-founder & Director
Micromax



YU VS EVERYONE ELSE

Micromax hopes its new unit YU Televentures will help it strengthen its foothold in the smartphone market, but doubts remain how effective the plan will be. **By SUNNY SEN**

O

n the afternoon of January 13, YU Televentures began selling its first smartphone – Yureka – on online retailer Amazon's India site. The phone was showcased almost three weeks earlier, and the Micromax unit had been heavily advertising the device. It had received 300,000 registrations for the 10,000 handsets on offer. The sale got over in three seconds and the site crashed due to heavy traffic.

Although YU is celebrating the success of its first online flash sale, the launch raises multiple questions that the company hasn't been able to convincingly answer. Why does Micromax need to set up a separate unit to launch a new product? Why doesn't the new product have Micromax branding? And, why isn't the smartphone being sold in Micromax's retail stores?

Rahul Sharma, one of four co-founders of Micromax and the brain behind YU, explains the rationale behind the new brand. Sharma says he is looking at building an ecosystem of devices that can be customised by the buyer and that offer a bunch of Internet-based services to customers. The Yureka is the first device of this ecosystem and will be followed by other devices like wearable gadgets that will connect to almost every electronic equipment, he says.

Analysts, however, say the Yureka, if it succeeds, could hurt its parent. This is because Micromax users could shift to the Yureka, which is available at ₹8,999 but offers better specifications than many Micromax smartphones in the same price segment. "The fact that Micromax had to introduce another brand shows how weak the parent brand is. YU will cannibalise their own brand," says Sanchit Vir Gogia, Chief Analyst and CEO of Greyhound Research.

Micromax has come a long way since it started selling mobile phones in 2007. Its cheap feature phones and low-cost smartphones helped it wrest market share from multinational companies such as Nokia, and fattened its top and bottom lines. The company reported revenue of ₹7,141 crore and net profit of ₹284 crore in 2013/14, according to the Registrar of Companies. But demand for feature phones is now declining while smartphone sales have been surging as consumer behaviour shifts and more people access the Internet to shop online and use applications like Facebook and WhatsApp. In the July-to-September quarter of 2014, nearly a third of the 72.5 million mobiles sold in India were smartphones, according to research firm IDC. The average smartphone price is between ₹7,500 and ₹8,100.

Although Micromax has emerged as India's second-largest smartphone player after Samsung, it isn't really known for top-quality products. Sharma says he felt it needed more than brand Micromax to take on



NILEETPAL BARUAH

"They [Xiaomi's customers] have become our brand ambassadors.

We rely on word-of-mouth marketing"

MANU JAIN,
Head, Xiaomi India

growing competition in the smartphone segment, and decided to launch a new venture. He now spends all his time with YU, where no Micromax executive is involved, and has let Micromax to be run by the other founders and management led by CEO Vineet Taneja, who previously headed Samsung India's mobile division, and Chairman Sanjay Kapoor, Bharti Airtel's former India CEO.

Is Sharma getting out of Micromax for good? He refutes such speculation. "This (YU) is part of Micromax... It is a 100 per cent subsidiary of Micromax," he says. Sharma says he is Micromax's representative in YU. Micromax, in which Sharma has a 19.58 per cent stake, owns 98.98 per cent of YU.

Growing Competition

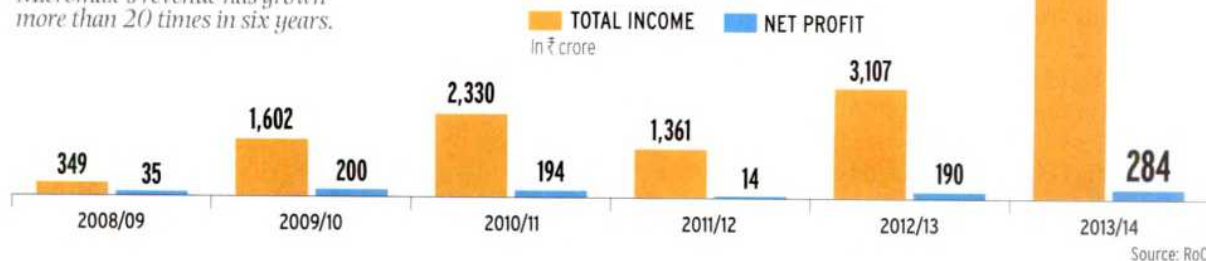
What prompted Sharma to think about a new venture was the changing dynamics of the mobile-phone industry that has led to the decline of companies including Nokia. "It's a sad story," he says, referring to the fall of the Finnish handset maker that once dominated the global mobile-phone industry. Threat from rapidly expanding Chinese handset makers such as Lenovo, Gionee and Xiaomi made matters worse – even global giants such as Samsung are feeling the heat. "Technocrats have written them [Samsung] off. They have hit a wall," he says.

Micromax is vulnerable, too, and will likely remain so. This is because users of Micromax's flagship Canvas series of smartphones could shift to YU devices while the parent company will continue to face the Chinese in the same price bracket. Moreover, YU does not pose any threat to the likes of Samsung and Apple, which mostly sell more high-end phones.

The Chinese companies mainly use the Google Android operating system with some customised tweaks and sell their smartphones at highly competitive prices. This hurts Micromax mainly in two ways. One, it uses the stock Android system in its

Stellar Growth

Micromax's revenue has grown more than 20 times in six years.



smartphones and so offers no differentiation to buyers. And two, it has limited room to cut prices because it mostly imports handsets from China.

Until about two years ago Chinese phones were considered cheap, both in terms of price and quality. But Gionee, Huawei, ZTE, Lenovo (which bought Motorola from Google), and Xiaomi have changed that perception. Arvind K. Vohra, Gionee India's head, says Chinese companies have filled the gap between the Indian players, which were offering low-priced phones, and expensive MNC brands that have high specifications. Gionee launched phones that were costlier than Indian brands but matched MNCs' specifications at lower prices. It now sells between 325,000 and 375,000 phones a month in India, and expects to cross ₹2,500 crore in revenue in 2014/15. "Micromax is losing because of [low] quality. Samsung is losing because of [high] price," says Vohra.

Analysts agree. "In 3G and 4G handsets, Chinese companies have doubled their share in India in a year's time," says Karan Thakkar, Senior Market Analyst for Client Devices at IDC, referring to third- and fourth-generation technologies that allow faster Internet access. "In terms

of percentage, the Chinese are growing faster than the Indians."

Growing use of 3G and 4G technologies means telecom operators are depending more on data consumption, rather than on voice and text messages, to boost their revenues. "Every Windows device is fundamentally a data-centric device. We are not in the voice-centric business. So every time an operator wants to turn on their Windows device, their data us-

Sharma travelled to the West, especially to Silicon Valley, multiple times. On one such trip about a year ago, at a cafe in Palo Alto, California, he met with Kirt McMaster, CEO of Cyanogen Inc, which provides an operating system based on the Android platform that allows customisation. Soon after, Micromax set up YU to roll out new devices that it hoped would fill up the gap that the parent company could not. YU has since hired 200 developers in Bangalore to work on software development.

YU stands for You and Us, indicating that the company would work with its customers to customise their phones according to their tastes and preferences. Yureka offers features that allow customers to start using all applications, even games, from the stage they left in their previous YU device. The company will tie up with online retailers, airlines, hotels and offer reference-based services. Customers will also get door-step servicing. "If you have to address all these issues, you need to have a new brand or a sub-brand," says Sharma.

This is where Cyanogen comes in. Cyanogen has 9,000 developers and Xiaomi's initial user interface was based on this platform. Another Chinese start-up, OnePlus, also

Who Owns YU

The shareholding pattern of YU



age on that customer is substantially higher than they would get from any different platform," says Chakrapani Gollapali, Country General Manager for the consumer channels group at the India arm of Microsoft, which now owns Nokia's handset business.

Delhi to Silicon Valley

To look for a suitable partner who could help him in the new venture,

launched its flagship mobile phone One on this platform. This, however, led to a dispute between Micromax and OnePlus. The Indian company sought to stop the sale of OnePlus One in the country, alleging that the latter was infringing on its right to exclusively sell Cyanogen-powered devices. The Delhi High Court has allowed OnePlus to sell its devices in India saying that the One, which sells for ₹21,999, does not compete in the same price segment as the Yureka. McMaster, the Cyanogen CEO, clarifies the company's stand. "Micromax is an exclusive partnership. We won't be working with any other OEM (original equipment manufacturer) except Micromax. We are doing all the software services for the devices, all of the OS and all the services integration."

Not everyone is bullish on the Cyanogen. Gogia of Greyhound Research says Cyanogen is installed on only 1.2 million devices worldwide. "A normal user does not even know what a Cyanogen is," he says. IDC's Thakkar, however, believes Yureka is an answer to the entry of the Chinese brands. "I don't think they are making money on Yureka. They are trying to target the tech-savvy user," he says.

Online-Only Model

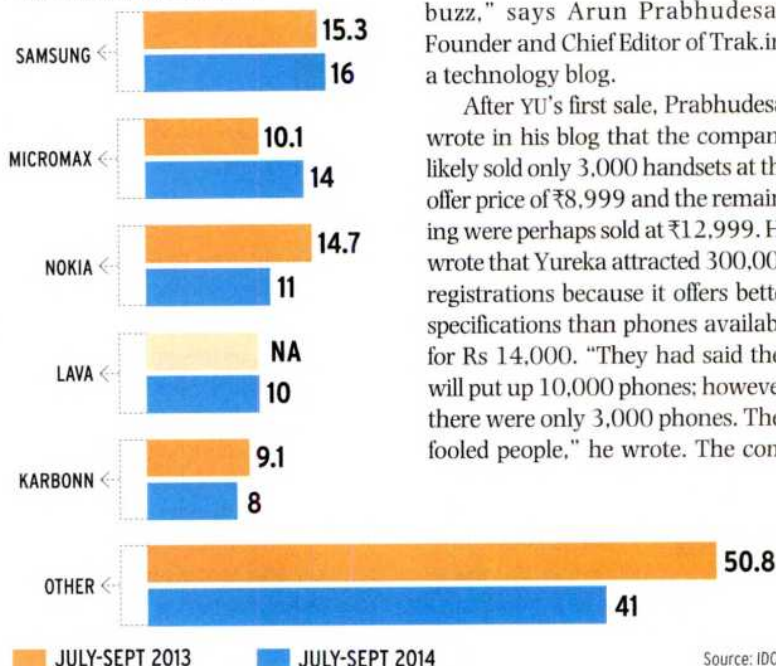
To sell Yureka, Sharma picked up the online-only model from Motorola and Xiaomi. Motorola started selling Moto G exclusively on e-commerce site Flipkart in February 2014. It has sold more than 300,000 units since then. On July 22 last year, Xiaomi began selling its phones on Flipkart. It offered 10,000 Mi3 phones that came with specifications one would normally find in more expensive devices. The phones got sold in 39 minutes and the site crashed multiple times due to heavy traffic. The second sale a week later got over in 2.4 seconds. Xiaomi has expanded its reach to 1,000 towns and cities in India, and now sells 60,000 to 100,000 handsets a week.

Manu Jain, Head of Xiaomi India,

Catching Up

Micromax is closing in on market leader Samsung

India mobile-phone market share in %



Source: IDC

says the company's products are better than Indian brands. Its first set of Indian buyers included tech enthusiasts and IT professionals. "They have become our brand ambassadors. We rely on word-of-mouth marketing," he says. "The second set of customers is from smaller cities who would otherwise buy a local handset, who have a particular budget in mind. They want to extract the maximum value for that money."

The advantages of the online-only sales model are its potential to grow sales rapidly and low cost of distribution. Xiaomi, for instance, saves about 15 to 20 per cent of distribution cost by selling handsets only online. Growth of e-commerce is another reason why phone makers are entering into exclusive tie-ups with these retailers. About 15 to 20 per cent of mobiles in India are now sold through e-commerce websites, compared with almost nil five years ago. Flash sales also get a lot

of attention on social media. "There is always a mad rush and a lot of people do not get the phone. People who get it start talking about it on social media and it creates a lot of buzz," says Arun Prabhudesai, Founder and Chief Editor of Trak.in, a technology blog.

After YU's first sale, Prabhudesai wrote in his blog that the company likely sold only 3,000 handsets at the offer price of ₹8,999 and the remaining were perhaps sold at ₹12,999. He wrote that Yureka attracted 300,000 registrations because it offers better specifications than phones available for Rs 14,000. "They had said they will put up 10,000 phones; however, there were only 3,000 phones. They fooled people," he wrote. The com-

pany declined to comment on the differential pricing.

But if flash sales and selling only online meant success, there would be many more successful brands. "Everybody thinks this is doable. How much successful will these players be, we will have to see. It is not about the channel, but more about the product," says Amit Boni, General Manager at Motorola India.

Sharma is unperturbed. "This [the criticism] has been happening since we started. The moment we started (Micromax), 114 players started after us... And since we are online, we are going to be competitive in pricing too," he says. YU, he adds, will play an important role in helping Micromax achieve its goal of becoming one to the world's top five mobile-phone makers. "This [YU] will add a lot of numbers. This will be icing on the cake." ♦

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Going Glocal

US health-care giant Abbott has high stakes in localising its Indian arm. The challenge for rivals in branded generics is real. By E. KUMAR SHARMA

Basel, Switzerland-based Michael J. Warmuth, who leads US health-care giant Abbott's pharmaceutical business in 130 countries, has visited India 20 times in the last four years. "India is the single biggest affiliate in my entire business, but that is not why I pay it so much attention," he says. "It is for what India can be."

Warmuth's assertion is echoed by Abbott Chairman and CEO Miles D. White. "India is a top priority for growth and investment for us," he told *Business Today* in an emailed reply. "With its development-friendly environment, I see our stake in the health of India only growing in years to come." It was four years ago that Abbott, buying up the formulations business of Piramal Healthcare for \$3.8 billion, became the biggest pharmaceutical company in India, where it first entered way back in 1910. The company posted revenues of \$920 million (₹5,000 crore) in the year ended December 2013.

No doubt the No.1 slot in terms of revenue and 6.7 per cent market share has been under threat since Sun Pharmaceutical and Ranbaxy announced their merger in April last year. Once it comes through – a couple of regulatory hurdles are holding it up – the combined entity, with a market share of 9.2 per cent and revenues of \$1.1 billion (about ₹7,000 crore), will surpass Abbott. But Abbott may well catch up, given the way it is

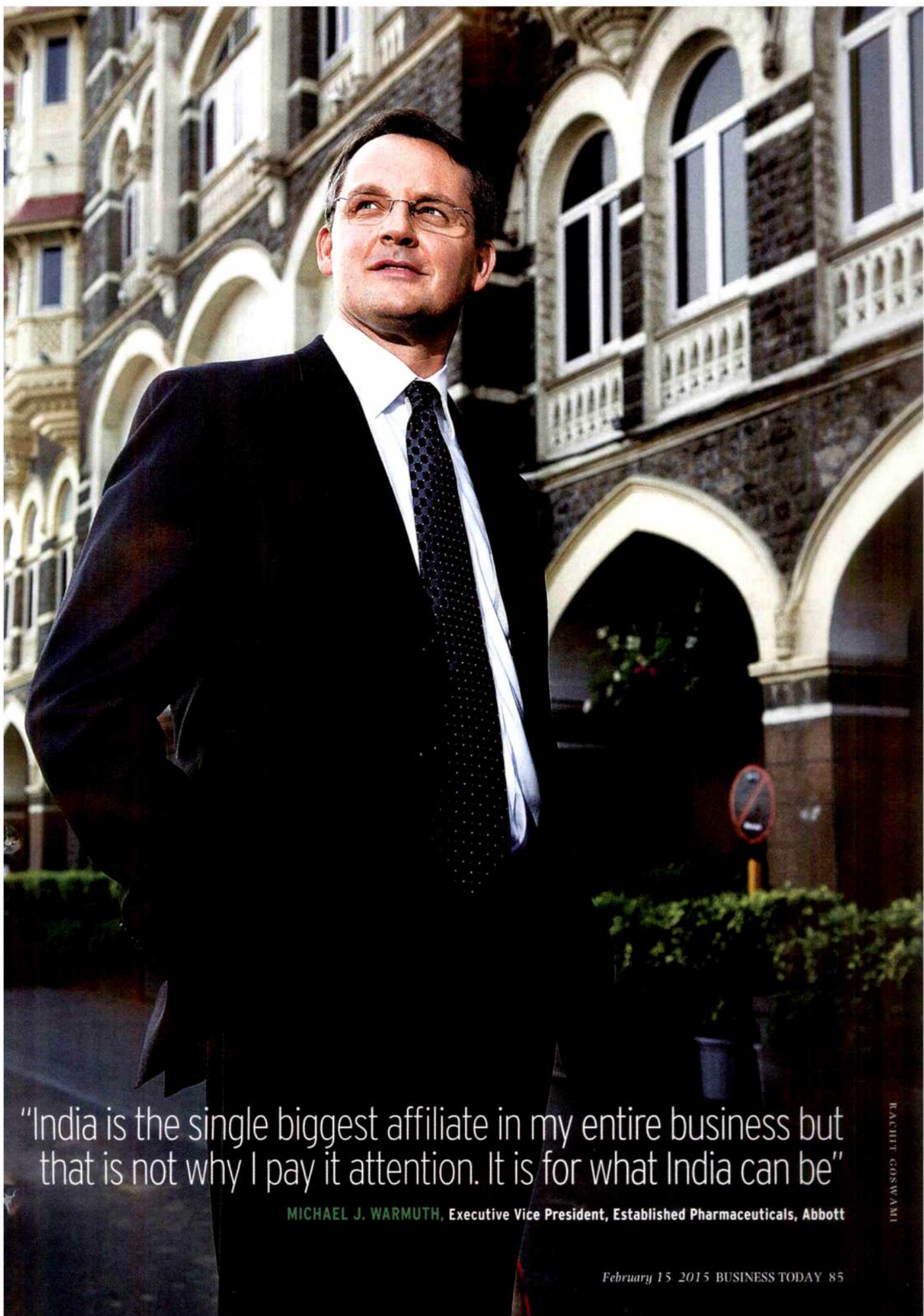
expanding in India, widening and deepening its reach and focus, adding new channels and leveraging research and innovation in generics. "Before the Piramal acquisition, our presence in different areas of the Indian pharma was less than 14 per cent, now it is 90 per cent," says Bhaskar Iyer, India Head of Abbott's pharma business. "We have invested in brand-building, over the counter (OTC) capability, involved ourselves in public private partnerships to create awareness and expand Abbott's reach."

Abbott has more than 400 branded generics products in the pharmaceutical segment in India. It launched 33 new ones in 2013 and 24 in 2014. In numerous categories, its products are among the top selling three – gastroenterology, treatment of hormonal disorders, respiratory problems, liver problems, diabetes, ailments relating to the brain and the central nervous system as well as vitamins, minerals and nutrients. Thirty of its brands figure among the top 300 pharma brands in India, according to industry tracker IMS.

The company's first nutritional products' facility, built from scratch at a cost of \$100 million at Jhagadia, Gujarat, began functioning last October. Abbott now has three plants in India – the other two in Baddi, Himachal Pradesh, and Verna, Goa – apart from a pharma development centre in Mumbai to focus on innovation in generics and a nutrition R&D centre in Bangalore. All its 10 nutritional products – including market leader PediaSure, a supplement for toddlers – are cur-

1910

The year Abbott started operations in India, its third international market after Canada and the UK



"India is the single biggest affiliate in my entire business but that is not why I pay it attention. It is for what India can be"

MICHAEL J. WARMUTH, Executive Vice President, Established Pharmaceuticals, Abbott

RACHIT GOSWAMI

rently imported, but will soon be made at Jhagadia, six of them for a start. "We have grown twice as fast as the market for the past three years," says Amal Kelshikar, Country Head and General Manager of the nutrition division. "Three years ago we had five products in nutrition in India, but have since added an equal number."

The foray into OTC drugs – which do not require a doctor's prescription for purchase – began in 2014 with Abbott's well-known, 70-year-old antacid brand Digene being moved to this category. Other company products are likely to follow as Abbott expands this segment. Officials maintain – quoting market tracker AC Nielsen – that the size of the OTC antacid market in India is now ₹944 crore, growing at 13 per cent annually and Abbott expects to

But obviously its rivals have not been idle, many of them adopting similar growth tactics. GlaxoSmithKline Pharmaceuticals, for example, also makes an effort to keep its products affordable, following country-specific pricing policies. On average, its products are 25 to 30 per cent cheaper in emerging markets than in developed ones. It has been in India for over 90 years and has 206 products, 95 per cent of them branded generics. It is a leader in numerous segments as well – vaccines, dermatology, anti-parasitic and anti-infective drugs. With a formulation unit in Nashik (earlier it had an old bulk-drug plant in Thane, which has now been shut down), it has now announced the building of a third plant, expected to come up in Bangalore at a cost of ₹864 crore. Some Indian companies

Growing Engagement

Abbott is expanding its operations in India by opening new plants, launching new products and extending support to India in the US

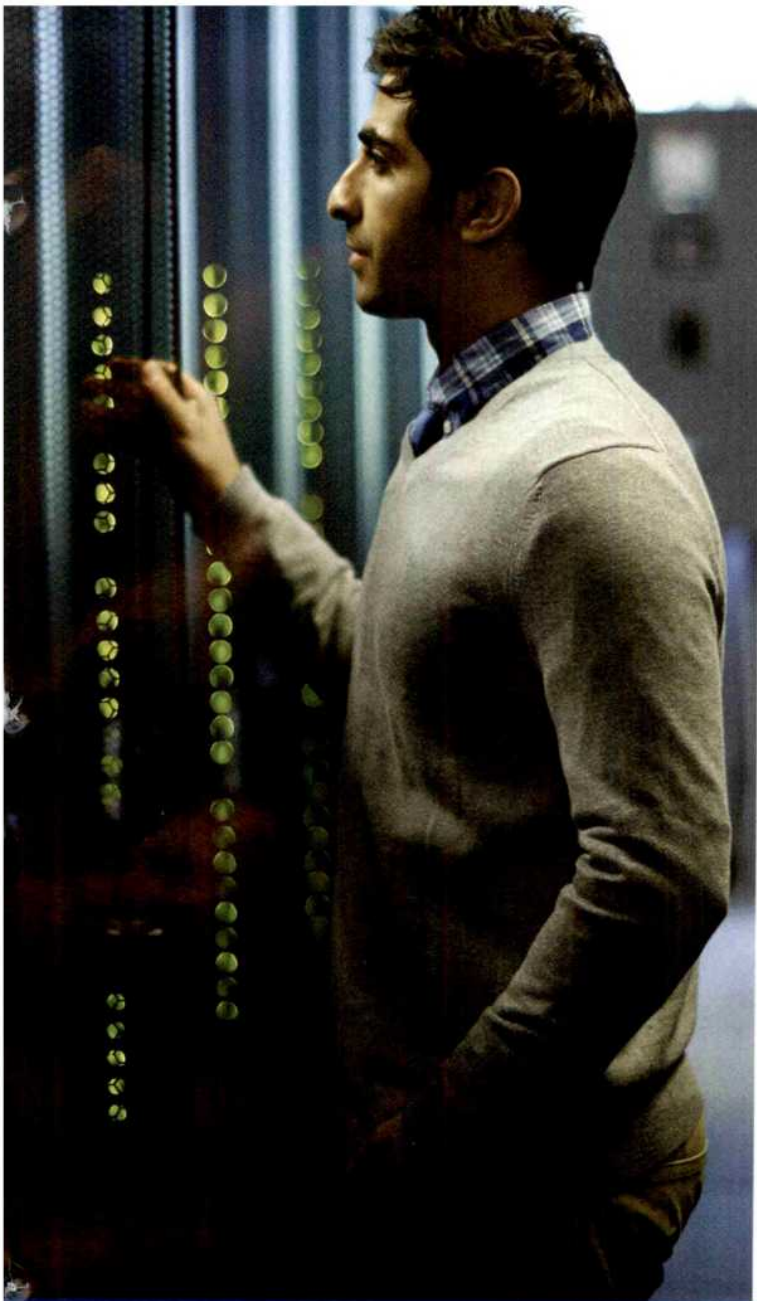


grow faster than that. Since last year Digene has also been available in powdered form in sachets, each one costing just ₹5, in addition to the earlier gel and tablet form.

The ₹5 sachet is in tune with the company's thrust towards making as many products as possible accessible to the widest possible market. Around 70 per cent of its products are priced between ₹1 and ₹7 per unit. Under a special programme, Abbott representatives meet 8,000 doctors and 10,000 retailers every month in four states – Maharashtra, Uttar Pradesh, Madhya Pradesh and Bihar – which has helped company products reach 650,000 people in 381 villages. "We are also doing a project with IIM Ahmedabad on how to leverage technology to improve access," says Iyer.

are doing even better in a few segments that are Abbott's strengths. For instance, Sun Pharma products are market leaders in gastroenterology, brain and nervous system disorders. Cipla leads in products treating respiratory ailments, while USV is strong in anti-diabetic drugs. Glenmark is progressing rapidly, having acquired around six per cent market share in inhalers in India where it had almost no presence five years ago.

Abbott knows it needs to differentiate itself and is doing so through innovation. The Mumbai centre, in particular, focuses on differentiated products and technologies, innovative drug delivery and packaging. In 2011, it came up with a liquid formulation of its epilepsy drug – for the first time globally – sold under the brand name Valance.



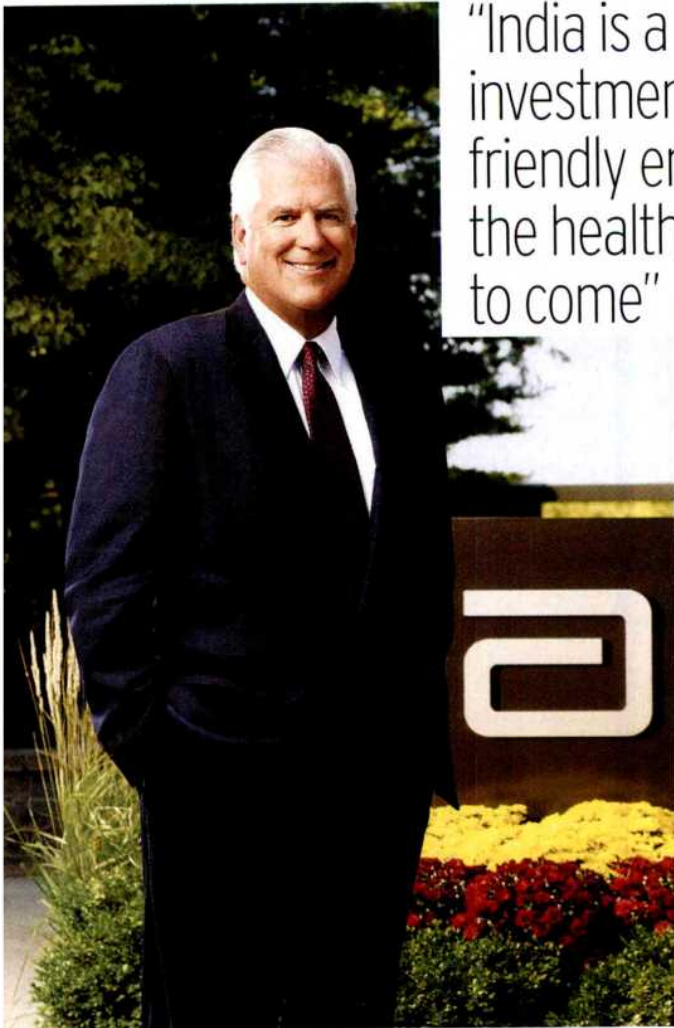
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"India is a top priority for growth and investment for us. With its development-friendly environment, I see our stake in the health of India only growing in years to come"

MILES D. WHITE, Chairman & CEO

has so many divisions, it makes lab equipment and glucometers, and after the Piramal acquisition, lots of different medicines. In nutrition too, it has products like Glucerna SR, a low calorie nutrient which diabetics can take."

Batting for India

White was part of the group of CEOs who attended the breakfast meeting in Washington with Prime Minister Narendra Modi during the latter's US visit last September, organised by the US India Business Council. The company, in a submission to the US International Trade Commission (USITC), has made it clear it has "not been facing any significant challenges with respect to intellectual property protection in India" and that the government "has demonstrated procedural fairness." This is quite different from some US companies represented by the Pharmaceutical Research and Manufacturers of America (PhRMA) that has complained against Indian trade barriers to the USITC.

Abbott also supports initiatives to give India a fair deal in the US. "Abbott has been playing an important role in supporting the 'Coalition for Jobs and Growth' we launched last June," says Gaurav Verma, Senior Director at USIBC. "It reaffirms Abbott's longstanding commitment to the US-India commercial partnership." The coalition was formed to press for a fair immigration bill and a wide ranging bilateral investment treaty between the US and India.

"Abbott is building on what it acquired from us," says Swati Piramal, Vice Chairperson, Piramal Enterprises. "For instance, we had one product in skincare creams to which it has added four or five more. It shows the company's approach of getting a lead in the market and then expanding on it." The coming years will see much more of the same. "India has been an untapped market for us," says Warmuth. "We are now very much into maximising organically the assets we have acquired." Will Abbott be able to meet its own forecast of \$2 billion revenue from India by 2020? "Not everything goes in a straight line, there are ups and downs," says Warmuth. "I am not saying where we will be in 2020. But I'm accountable to my shareholders and for my commitments. I'm accountable for making the noticeable difference we said we wanted to in India." ♦

Epilepsy drugs in tablet form are difficult for children – epileptic symptoms usually manifest themselves from childhood – to consume. It is also bringing its innovations from other parts of the world quickly to India. In December 2012, India became one of the first few countries where Abbott launched its 'bioresorbable vascular scaffold', an innovative stent inserted in blood vessels to clear blockages, which dissolves within a year after creating a new passage for blood flow.

Diabetes specialists are also looking forward to the introduction of the ambulatory glucose profile in India, developed by Abbott in Europe, based on a new sensor technology. "It is a small sticker with an electrode that can be attached to the upper arm of diabetes patients in a non-invasive manner, which reads blood glucose levels every five minutes for 14 days," says Dr V. Mohan, founder of Dr Mohan's Diabetes Specialities Centre. "This will be very useful for doctors in getting glucose profiles." What does he think of Abbott's range of products? "It is a good portfolio to have in the Indian context," adds Dr Mohan. "Abbott

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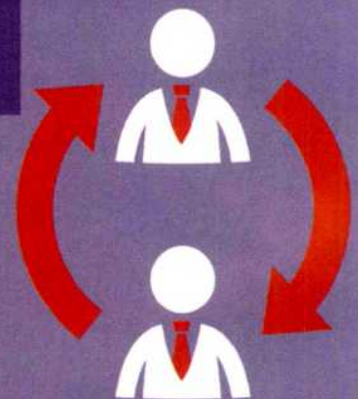
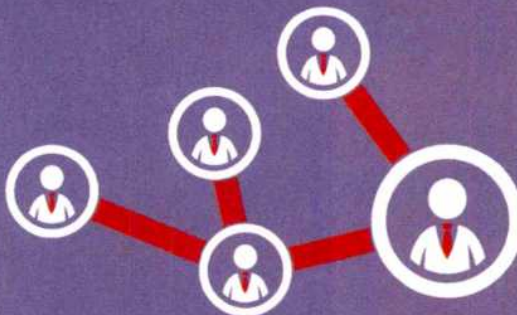
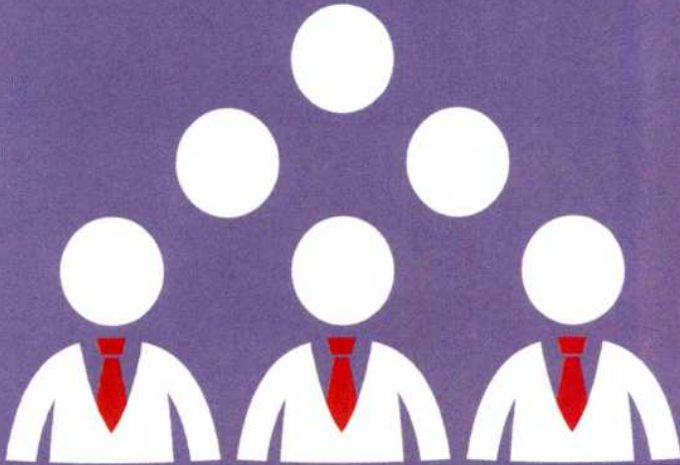
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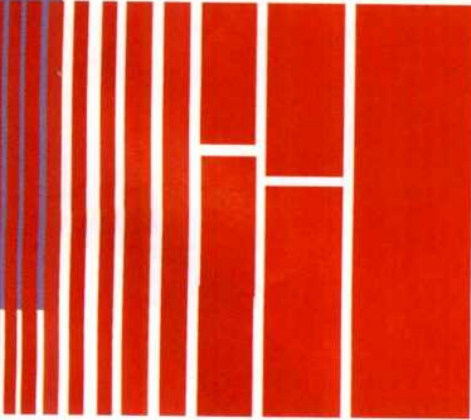
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e-Passage to India

Foreign funds have dominated the biggest deals in the Indian e-commerce sector. By TASLIMA KHAN

In July 2014, a clutch of foreign funds led by Tiger Global and Naspers invested a jaw-dropping \$1 billion in Flipkart. The deal valued the company at \$7 billion and is the biggest ever round of funding in an Indian e-commerce player. A few months later, in October 2014, Japanese Internet and telecommunications group SoftBank put down a staggering \$627 million in Snapdeal. It valued the company around \$1.2 billion.

In the year gone by, two big trends came to the fore. One, Internet deals came back into fashion with venture capital and private equity (PE) funds pumping in \$3.2 billion into new and existing Internet companies in India. Indeed, this number is likely to be much bigger as most global funds do not disclose their individual investments in companies. Two, the biggest deals saw Indian investors being relegated to the sidelines while the big boys from abroad plunked down hefty sums of cash in e-commerce ventures. "The global investor sentiment around Internet and digital businesses is much more bullish than before," says Ashish Bhinde, Co-founder and Managing Director at Avendus Capital, a financial services firm which has facilitated a number of e-commerce investments in the country. "There could not have been a better timing because India, as they say, is six to seven years behind China."

Most global funds do not even have an India office. Often deals are sewn up over the phone or Skype. A start-up CEO, who raised early-stage funding of over ₹50 crore from Tiger Global and other investors, says the deal was concluded over a Skype call with Lee Fixel, Managing Director and Partner at Tiger Global Management.

Emails sent to several global funds on their India strategy – Sofina, Vulcan Capital, Steadview Capital, Temasek, DST Global and Tiger – went unanswered. Only Naspers responded, acknowledging that it was bullish on e-commerce in India. "We have recently been increasing our investment in India and have no plans to exit. Our current focus in India is in the area of e-commerce, a sector which we believe represents significant growth potential," says Meloy Horn, who heads Investor Relations at Naspers. The fund's India portfolio includes Flipkart, OLX, PayU and Ibibo Group comprising Goibibo, Redbus and

PLAYING IT SAFE: WHY INDIAN PEs HAVE STAYED AWAY FROM E-COMMERCE

☛ Fund sizes too small to support deals more than \$100 million

☛ Uncomfortable with sky-high valuations

☛ E-commerce business models not yet proven

☛ Protecting capital more important than risk taking

☛ Lack of prior experience in the sector

TravelBoutiqueOnline (TBO). "Global investors have realised the tremendous opportunity that this industry presents and rightfully anticipate high return on investments," says Kunal Bahl, co-founder and CEO, Snapdeal.

By all accounts, then, foreign funds continue to eye opportunities in India. Consider the example of Bangalore-headquartered online grocery store Big Basket, which raised \$32.8 million from domestic venture capital firms Helion Advisors and Zodiuss Capital in 2014. The start-up does not need more capital immediately but has already been approached by a couple of global funds. "Investors are closely watching the online grocery space in India," says Hari Menon, Co-founder of Big Basket.

Staying Away

India-based PE funds – Multiples Alternate Asset Management, ICICI Venture, Kotak Private Equity, Everstone Capital, among others – have stayed away from e-commerce altogether. Have they missed the big e-commerce opportunity and why?

Most Indian PE funds are usually mid-sized growth stage funds with corpus ranging from \$300 million to \$400 million. In contrast, global funds participating actively in the Indian e-commerce story are much larger multi-billion-dollar funds. Consequently, they have a bigger investment appetite. The eighth fund raised by US-based Tiger Global, one of the most active global investors in Indian e-commerce companies including Flipkart, in April 2014 had a \$1.5 billion corpus. Seven months later, in record time, Tiger raised another \$2.5 billion fund. DST Global, a fund owned by Russian billionaire Yuri Milner and which led the \$210 million funding deal in Flipkart in May 2014, manages over \$1 billion.

"Indian funds are still at a nascent stage and do not have that kind of fire power to support large ticket sizes. The largest they have written is \$30 million," says Radhika Aggarwal, Co-founder and Chief Marketing Officer at Shopclues, the horizontal e-commerce marketplace. Shopclues raised \$100 million from investors led by Tiger Global in January.

Indian PE funds do not invest more than 15 to 20 per cent of their fund pool, or \$30 million to \$40 million in a single company. Additionally, fund requirements of

Indian e-commerce leaders have snowballed recently. This has made it difficult for Indian funds to meet their needs. Flipkart alone has mobilised a total of \$2.45 billion so far, of which \$1.91 billion has been raised in a single year, 2014, in multiple rounds. Larger international funds are then stepping in to support Indian e-commerce companies. Indeed, apart from core e-tailing companies, such as Flipkart, Snapdeal and Shopclues, the biggest deals in other online companies have also been dominated by global investors. For instance, online classifieds company Quikr raised \$60 million from Tiger Global at a valuation

INDIA CALLING: THE BIGGEST GLOBAL INVESTORS IN INDIAN E-COMMERCE*

INVESTOR	AMOUNT INVESTED
SoftBank Investment	\$790 million-plus
MIH Holding(a subsidiary of Naspers)	\$400 million-plus
Tiger Global Management	\$337.98 million
Steadview Capital Management	\$192 million
The Qatar Investment Authority	\$150 million
DST Global	\$150 million
GIC Special Investments	\$100 million

*2012 onwards

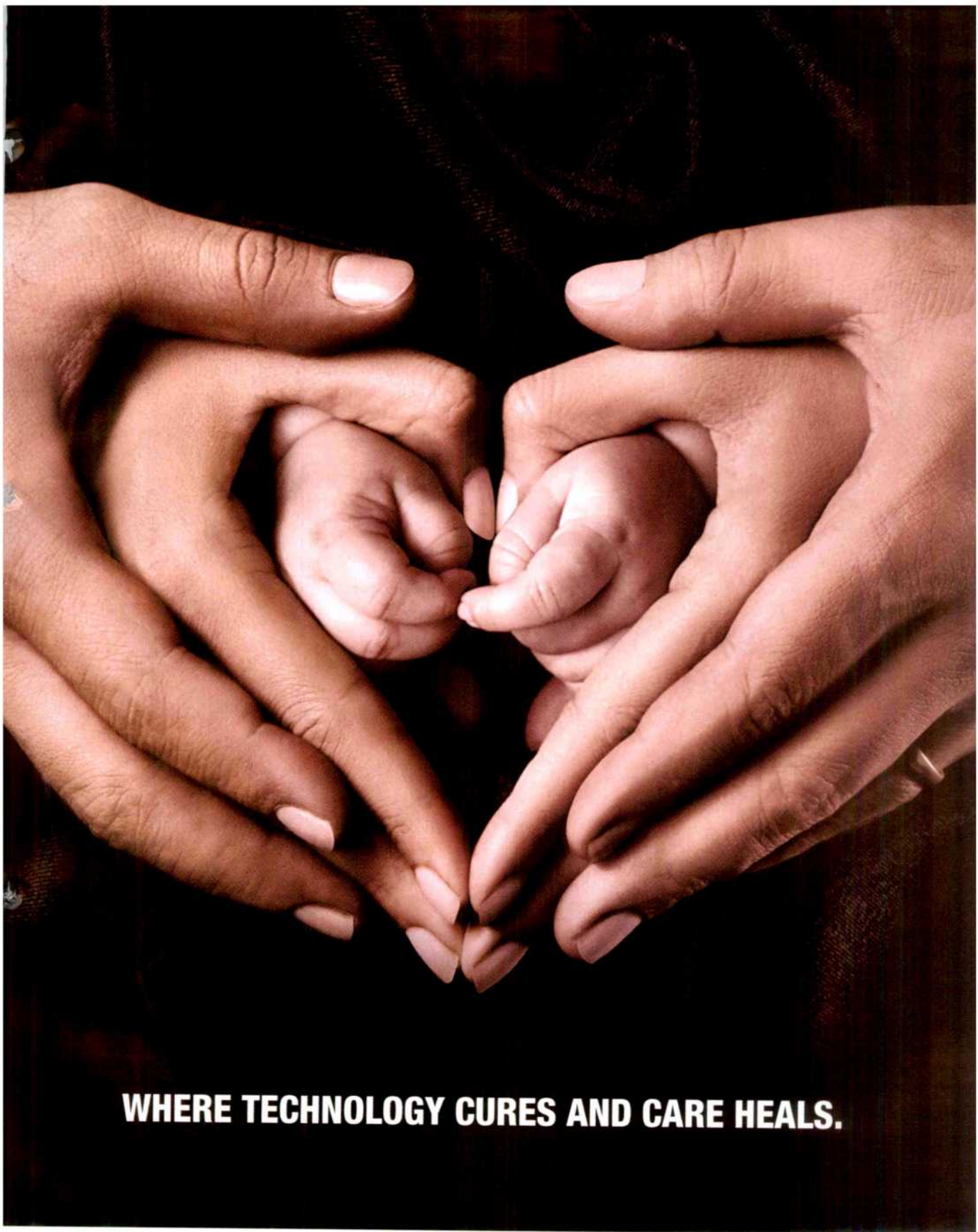
This is only a rough estimate as most deals are co-investments and in several deals the amount committed individually by separate investors is not known

Source: VCCEdge

of \$300 million in 2014 while online taxi booking service Ola Cabs received funding to the tune of \$210 million from Softbank. Ola, founded by IIT Bombay graduate Bhavish Aggarwal in 2010, was valued at about \$1 billion in the deal. Similarly, big-ticket deals were struck by online real estate portals in 2014, such as Commonfloor and Housing. While Commonfloor raised \$60 million from global investors led by Tiger Global last year, Softbank led the \$100 million funding of two-year old

RADHIKA AGGARWAL
CO-FOUNDER AND CHIEF MARKETING
OFFICER, SHOPCLUES

"Indian venture capitalists are still at a nascent stage and do not have that kind of fire power to support large ticket sizes. The largest they have written is **\$30 million**"



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SACHIN BANSAL
CEO, FLIPKART

The Biggest Fund Raiser: Flipkart

Flipkart has till date received \$2.5 billion in capital, largely led by global funds

MAY 2014: \$210 million from DST Global, Tiger Global, Naspers & Iconiq Capital

JULY 2014: \$1 billion from Tiger Global Management, Naspers, GIC, Accel Partners, DST Global, ICONIQ Capital, Morgan Stanley Investment Management & Sofina

DECEMBER 2014: \$700 million from Qatar Investment Authority, Baillie Gifford, Greenoaks Capital, Steadview Capital, T. Rowe Price Associates, DST Global, GIC, ICONIQ

start-up Housing.

"Any decent large investment in India is from a foreign fund," says Srinu Vudayagiri, Investment Director at Peepul Capital, an early growth stage PE fund which is running its third fund – with a corpus of \$350 million – in India. The fund's average investment ticket size is \$20 million to \$30 million. "When it comes to late-stage companies today, they require hundreds of millions of dollars. I don't have it," says Vudayagiri candidly.

Also, for Indian PE and venture funds e-commerce is only one of the opportunities they are eyeing at any point of time. They are also scouting for opportunities in other sectors including health care, financial services, manufacturing or other technology related investments. "Indian funds have missed out on the large horizontal e-commerce opportunity because the valuations and the cheque sizes have gone way beyond what they are com-

fortable with," says Bhinde of Avendus Capital.

Indian funds are also concerned about the soaring valuations of e-commerce companies at a time when most of them are making losses. It doesn't deter global investors. "Lack of profitability today does not deter global investors because they have seen that in the medium to long term the market leaders can achieve profitability," says T.C. Meenakshisundaram, Managing Director of IDG Ventures India, a venture capital fund that has backed e-commerce companies like Myntra, Flipkart, Zivame and Valyoo. Like IDG, several India-focused venture funds – including Accel Partners, Sequoia Capital, Helion Advisors and SAIF Partners among others – have been early backers of e-commerce firms but have not been significant participants in big deals. "Early-stage venture funds stop investing beyond the Series C stage," says Prashanth Prakash, Partners at Accel Partners, one of the earliest investors in Flipkart. The venture investment ticket size in India usually runs from a couple of million dollars to as much as \$15 million to \$20 million. The average fund-size of venture funds in India is \$100 million.

In fact, Indian funds have stayed away from e-

commerce because of their inexperience in the sector. "Businesses like e-commerce are very, very different. They burn a lot of cash, they get valued on revenue multiples," says Bhinde of Avendus. Most large e-commerce companies need multiple rounds of capital which Indian investors don't have an appetite for. "As they are burning cash, they will need more money every year. If you don't give money every year, they will go bankrupt," says Prakash Nene, Partner at Multiples Alternate Asset Management.

Global funds, on the other hand, have a very strong cross-country investment experience in Internet companies in China, Southeast Asia, Latin America and Eastern Europe. Tiger Global, for instance, has investments in more than 67 companies across the globe and has invested millions of dollars in Facebook, Google and LinkedIn in the US, NetShoes in Brazil and Youku and DanDang in China. It has so far exited companies like OnDeck, Zynga and eLong while some of its portfolio



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companies like Letsbuy, Myntra, Exclusively.in, GetJar and Caviar have been acquired. SoftBank, the Japanese technology, telecom and Internet giant, had invested roughly \$20 million in Chinese e-commerce start-up Alibaba way back in 2000 when the tech bubble surfaced. Alibaba listed on the New York Stock Exchange in late 2014. At the initial public offering valuations, Softbank's investment in Alibaba was worth some \$50 million. SoftBank's founder and CEO Masayoshi Son sees the Alibaba potential in Snapdeal and plans to invest about \$10 billion in India's Internet sector over the next decade.

Risk-taking appetite of Indian funds is very low. In Internet and e-commerce, the number of players that survive are actually very few. Capital protection is very critical to Indian funds and most of them have a mandate to target an internal rate of return of about 25 per cent per annum. "Most Indian funds are growth-focused. They are not looking at disruption or innovation but growth," says Vudayagiri of Peepul Capital.

However, e-commerce is becoming

too important a sector for Indian funds to completely ignore. Some of them have invested in peripheral areas, such as e-commerce logistics, which appear to be a safer bet than e-commerce. They, however, are burning cash just like their e-commerce counterparts because of the need to expand their logistics services across cities. Peepul Capital invested ₹100 crore in Gurgaon-based e-commerce logistics company ECOM Express this year. It was followed by Multiples, which led a \$35 million investment round in Delhivery, the largest company in the e-commerce delivery space. Funds are also opening to investments in specialised e-commerce such as fashion or food. "We will not wait for valuations to cool down, we may look at the right opportunity," says Nene.

Launch Pad

Indian start-ups often look to capitalise on the global expertise of their investors. In essence, a launch pad to go global. Online travel portal TBO is a case in point. Some two years ago, Ankush Nijhawan, Co-founder and CEO of TBO, was looking for funding to grow his start-up launched in 2007. He also wanted a partner to assist his international plans. They then met the M&A team at Naspers in Delhi. "They keep looking for interesting companies and landed on us with a face-to-face conversation. It was followed by emails and calls," says Nijhawan. The deal was closed in about seven months and the MIH Group – a subsidiary of Naspers – acquired 51 per cent in his company Tek Travels, which owns TBO. The Naspers team

KUNAL BAHL
FOUNDER & CEO, SNAPDEAL

Cash hungry: Snapdeal

Snapdeal's total funding has exceeded \$1 billion, largely by foreign funds

FEBRUARY 2014: \$133 million from eBay, Kalaari Capital, Nexus Venture Partners, Bessemer Venture Partners, Intel Capital & Saama Capital



MAY 2014: \$100 million from Premji Invest, Temasek, BlackRock, Myriad & Tybourne



OCTOBER 2014: \$627 million from SoftBank

helped TBO launch in Africa and West Asia. "Basically the intention is to piggyback on them for their experience in emerging markets," says Nijhawan, who is now planning to launch in Latin America.

Meanwhile, amidst the euphoria, there appears to be a certain irrational exuberance on valuations that some in the industry are worrying about. "There seems to be some amount of irrationality in the amount of money being raised by companies here and one can expect some level of adjustment sometime soon," sums up Sethi of Shopclues. ♦

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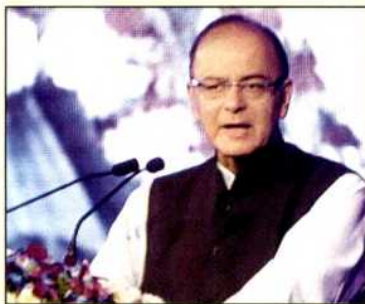
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WEST BENGAL well poised for accelerated development and ROAR again like the Bengal Tiger, ASSOCHAM

Key Highlights of Bengal Global Business Summit - Bengal Leads 2015, held on January 7-8, 2015 in Kolkata

- YES BANK, India's 4th largest private sector bank, and ASSOCHAM, India's apex knowledge chamber, joined hands with the Government of West Bengal for the 'Bengal Global Business Summit - Bengal Leads 2015'
- Aimed at creating the right impetus to stimulate industrial growth in the state, the Summit focused on various key sectors including Agribusiness, Manufacturing and MSME, Housing, Urban Infrastructure, Energy, Financial Services, IT, Textiles, Healthcare and Education
- Hon'ble CM, Mamata Banerjee, presided over the Summit which witnessed stellar participation from industrialists and ministers from across India and the world, as the Government came together with India Inc to make the Royal Bengal Tiger roar again
- ASSOCHAM believes that actualizing the 'Make in India' vision will not only require participation of the State and Central Government, private players and citizens as key stakeholders, but also a business friendly state regulatory framework, easy access to finance, and MSME and infrastructure focused development programs and projects in the State
- YES BANK has partnered the State Government to develop collaborative community models in the Sunderbans region to highlight the potential of tourism as a socio-economic enabler. A similar model is being implemented in Purulia District of West Bengal
- Sanjay Jhunjhunwala, Chairman, ASSOCHAM Eastern Region Council and CEO, Mani Group while participating in the ASSOCHAM breakout session on Financial Services observed that Bengal will emerge as the Financial and Legal services hub in the country



West Bengal has the potential to re-establish itself as the industrial growth centre of India. The basis of growth is ability to attract investments and create promise to deliver profit on returns on investment. Investment only leads to bigger investment.

Arun Jaitley
Hon'ble Union Minister for Finance, Corporate Affairs, and Information & Broadcasting



The Centre will support development projects of the State. The deep sea port at Sagar will cost ₹ 12,000 Crore and will be the gateway to North East and South East Asia. ... More investment is lined up in other port projects including Haldia Dock II and ₹ 12,500 Crore lined up for modernising and broadening 563 km of NH 34 between Kolkata and Siliguri.

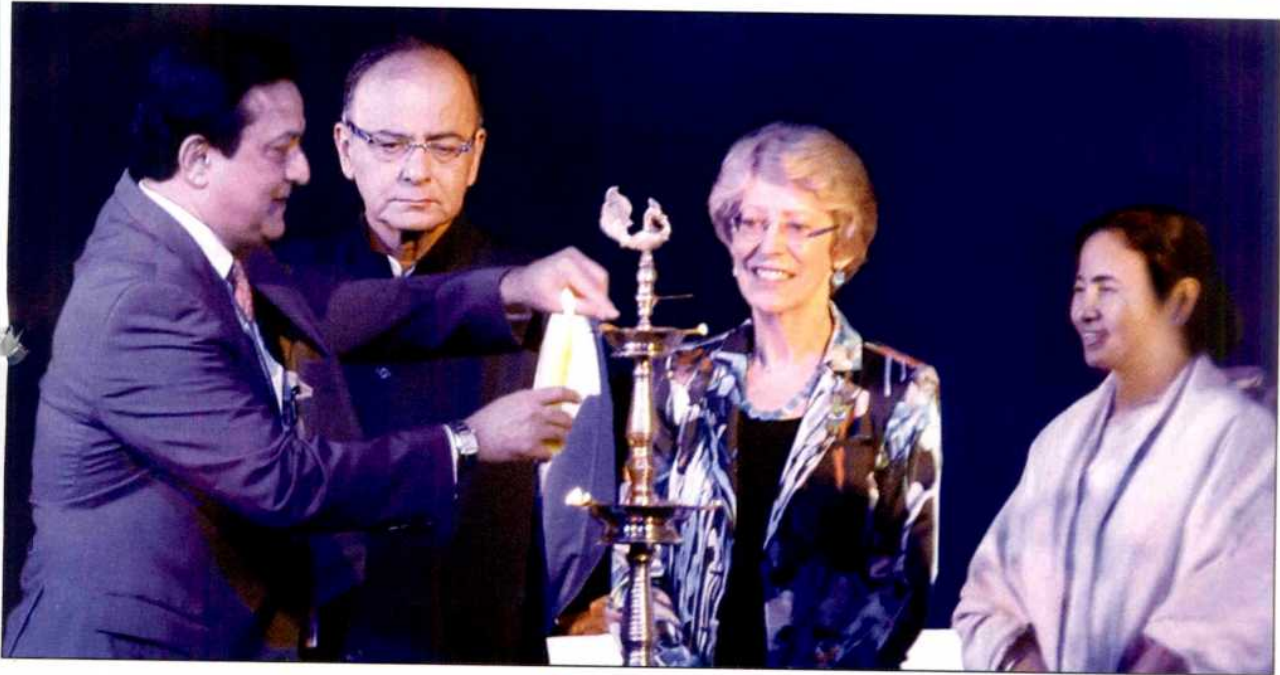
Nitin Gadkari
Hon'ble Union Minister for Road Transport and Highways, and Shipping



West Bengal is a land of million opportunities, diverse religion and culture. Bengal has all the ingredients to become the most progressive state. Various sectors like tourism, agriculture & MSME can contribute towards the growth of Bengal. A new Cabinet Committee for infrastructure, efficient transport system will further strengthen the state. I am ready to work as a commoner and as a worker for *Maa, Maati, Manush*.

Mamata Banerjee
Hon'ble Chief Minister West Bengal

Development and growth - to revive animal spirits



Rana Kapoor, MD & CEO **YES BANK** and President **ASSOCHAM**; Arun Jaitley, Union Minister for Finance, Corporate Affairs, and I&B; Mamata Banerjee, Chief Minister, West Bengal during the inaugural of 'Bengal Global Business Summit - Bengal Leads 2015' on January 7, 2015 in Kolkata.



West Bengal's strong growth performance surpasses all India figures. We are moving towards more productivity - there was zero man-day loss last year. The number of MoUs and Letters of Intent received by the State Government highlight the trust and faith of investors, both nationally and internationally, in West Bengal.

Amit Mitra

Hon'ble Minister for Finance, Excise, Commerce & Industries, Public Enterprises, Industrial Reconstruction and IT & Electronics, West Bengal



West Bengal has been consistently achieving a higher SGDP beyond the national average and the economy is now well poised to tap the immense investment opportunities in the State for progressive economic changes and accelerated development in key sectors including agribusiness, manufacturing, infrastructure, health, education and tourism. With a business-friendly regulatory framework, easy access to finance and MSME-focus, ASSOCHAM believes that the State's industry and economy will soon revive latent animal spirits to once again ROAR like the Bengal Tiger.

Rana Kapoor

MD & CEO **YES BANK**
President **ASSOCHAM**
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In just over four years, the Tatas' Hyderabad-based aerospace venture has made a global mark.

By E. KUMAR SHARMA

FLYING



START



Time to fly: TASL employees making cabins for S-92 helicopters at the Hyderabad factory

A little over six years ago, on October 8, 2008, the then chief minister of undivided Andhra Pradesh, Y.S. Rajasekhara Reddy, received a mail from the then chairman of the Tata Group, Ratan Tata. Andhra Pradesh had been lobbying hard for the Nano small-car project once Tata Motors decided to pull out of West Bengal, but the letter regretfully informed that the company had chosen to relocate in Gujarat. However, appreciating the state government's invitation, the letter added: "The Tata Group has decided to locate its newly formed defence and aerospace activity in Hyderabad, which will be the centre-point of one of the largest new hi-tech activities the Tata Group is entering."

Ratan Tata was as good as his word. Tata Advanced Systems Ltd (TASL), with its manufacturing unit in Adibatla, on the outskirts of Hyderabad, began functioning in March 2010 with Tata Group veteran S. Ramadorai as Chairman. With an investment of over ₹500 crore so far and much more promised, TASL, apart from bagging a number of prestigious contracts, has also separately set up joint ventures with global aerospace majors Sikorsky Aircraft Corporation and Lockheed Martin. "Every S-92 helicopter leaving the Sikorsky production line in the US has a cabin which was made right here," says Sukaran Singh, Director, TASL in an email to *Business Today*. "The first cabin was readied in November 2011 and since then we have delivered more than 80

HEAVYWEIGHT PARTNERS

Tata Advanced Systems has JVs with

SIKORSKY

Makes parts for Sikorsky's S-92 helicopter cabins. TASL uses the parts to assemble the cabins

LOCKHEED MARTIN

Makes centre wing box and empennage of military transport aircraft C-130J Super Hercules

POISED FOR TAKEOFF

Manufacturing deals signed

COMPANY/ DATE/ PRODUCT

DRDL*, India

Nov 2013/ Missile components

RUAG, Switzerland

June 2014/ Fuselage and wings of Dornier 228 aircraft

Cobham Plc, UK

June 2014/ Air-to-air refueling pods

Pilatus, Switzerland

Aug 2014/ PC-12 'green aircraft' aero-structure

*Defence Research and Development Laboratory

to them. Our current production rate is around four to five every month." The JV with Lockheed Martin makes centre wing boxes and empennage for the latter's C-130J Super Hercules military transport aircraft.

TASL is also actively exploring the domestic market. "This venture gives us an opportunity to work with Indian defence laboratories and the armed forces as they build capacity in aeronautics – both aero-structures and systems," says Ramadorai. Among the contracts already bagged is one to make missile components for the Defence Research and Development Laboratory. "We have been participating in various Indian programmes related to missiles, radars, aerospace engineering, unmanned aerial vehicles, opto-electronics and security," adds Singh. "We will indigenously assemble and integrate complete systems leveraging capabilities already operational."

The aerospace sector is a particularly demanding one for private companies, since it is a high technology area into which they were allowed in only a few years ago. Besides the Tatas, the Mahindra Group, Larsen & Toubro and Bharat Forge are among the other private players in the sector that is dominated by state-run Hindustan Aeronautics.

"Aerospace material and products need to meet high precision standards," says Debashish Ghose, Professor and Chairman, Department of Aerospace Engineering, Indian Institute of Science, Bangalore. "Private companies must have the infrastructure and the expertise to meet these standards. The Tatas, with their large manufacturing and research base, are perhaps best suited for the task." This explains too why even the Tatas have taken the JV approach. "Many US and European original equipment manufacturers have more than 75 years of learning behind them," says Ramadorai. It is nonetheless a lucrative market India ought not ignore. "China, South Korea and many other large and



NILETPAL BARUAH

S. RAMADORAI
Chairman/ Tata Advanced Systems

**"WE WANT WORLD-CLASS
ENGINEERING AND WORLD-
CLASS MANUFACTURING
WITH WORLD-CLASS
TECHNICIANS BEHIND
THEM"**

small countries are already making forays into this area and India too should get its share," says Ghose.

Ghose feels that any lapses on the part of the private players in meeting global standards can not only affect the companies' reputation but also hurt the entire industry in India. TASL, aware of the pitfall, is taking pains over proper training. "We have invested in the training of technicians," says Ramadorai. "We have set up our own advanced craftsmanship centre to act as a bridge between educational institutes and industry. Even Industrial Training Institute graduates have to go through six months of both practical training and theory before they become on-the-job trainees and only thereafter, full-fledged associates. Similarly, engineering talent is inducted fresh from colleges and then

groomed through a series of projects in different functions for a year."

The choice of Hyderabad as headquarters for TASL also intrigues Ghose. "Bangalore may have been a better place since almost all the major aerospace players, both government and private, are located there," he says. "Experts in the different segments of aerospace are also more easily available in Bangalore." But he also sees the flip side. "It is a good idea to create an alternative aerospace hub in Hyderabad," he adds. "The Defence Research and Development Organisation has several major research units in Hyderabad and TASL will benefit from the proximity."

The state government of what is now Telangana is naturally delighted and hopes more private players will follow suit. "We are in constant dialogue with industry and are talking to several players," says K. Pradeep Chandra, Special Chief Secretary, Industries and Commerce, Telangana. "Many of them already have significant investments here in other sectors and we would like them to invest in aerospace as well." An old, unused airport in Hyderabad and facilities at the one in Warangal could be made available to the industry for its tests. "There is also a plan to come out with an exclusive aerospace policy for the state," Chandra adds.

Quality and scale will remain TASL's watchwords in coming years. "We don't want a single rejection or a single delay while executing our orders," says Ramadorai. "We want world-class engineering and world-class manufacturing with world-class technicians behind them." As for scale, there are many ambitious plans. For instance, in the case of the Dornier 228 project with global aircraft major RUAG, Ramadorai says the aim is to ultimately become a hub for maintenance, repair and overhaul for all aspects of the Dornier aircraft out of India. "We hope to see this happen in the next five to 10 years," says Ramadorai. ♦

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FAAS FORWARD

Fitness as a service, or Faas, is what Vishal Gondal banks on in his new venture, GOQii. Is he ahead of his time? By ARPITA MUKHERJEE

Finally, Sandeep Chaudhary gave up and got married without attaining his vision of himself as a leaner man without a paunch. Not for a lack of intent.

Chaudhary, a 28-year-old engineer, took a gym membership for a year and had a few meetings with a dietitian. Why he even tried a fitness device to propel himself. But his work schedule – long hours and frequent travel – came in the way. He could draw solace from the fact that his bride, who was on a fitness drive herself, did not quite look supermodel-thin on December 14 last year,

the day of their wedding.

"I got a lot of data from the device, but I did not know how exactly to use that data," says Chaudhary. But he does wonder what might have been if there was a voice, more firm and less forgiving than his own conscience, to goad him on.

To all those who share Chaudhary's angst, Vishal Gondal has the answer. Gondal had set up IndiaGames at the age of 16 and sold it to Walt Disney in 2011. He has now started GOQii, pronounced go-key, which provides you with that voice: encouraging, counselling, at times almost reprimanding.

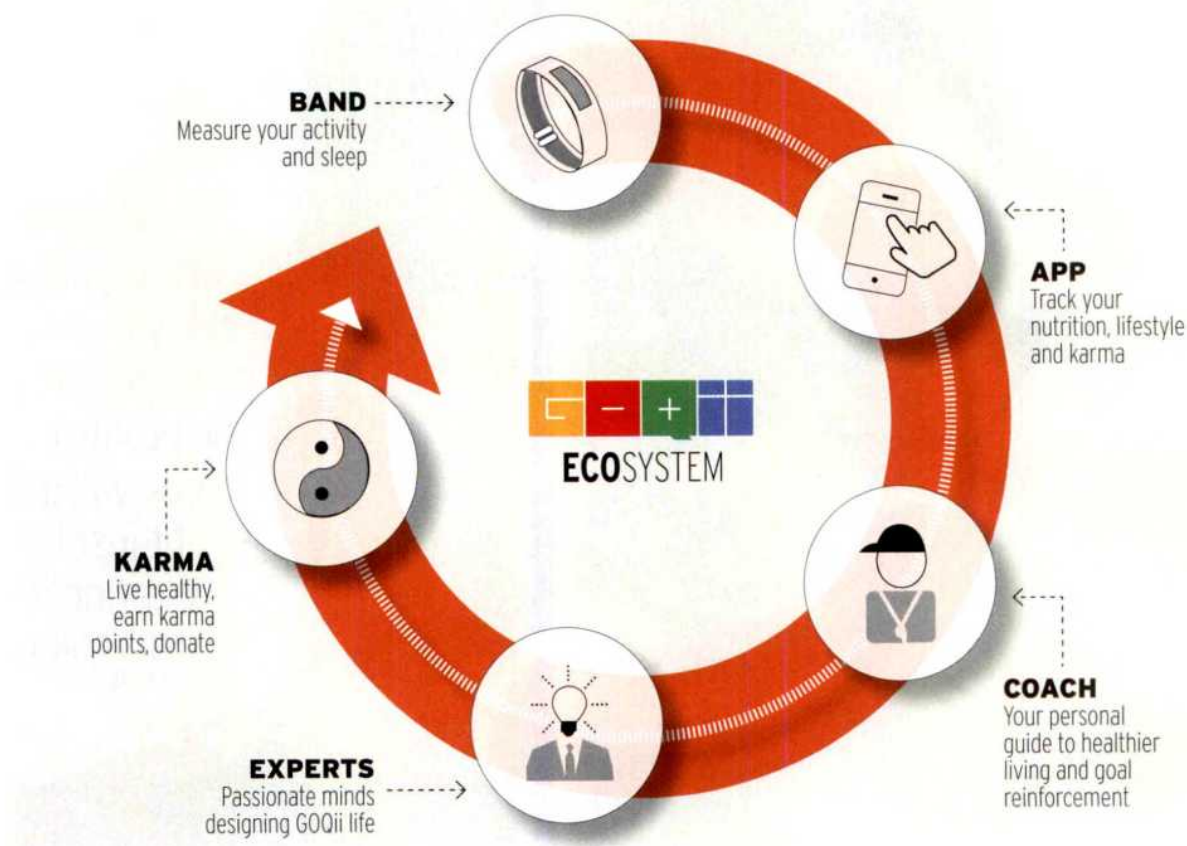


**"Most people
are trying to
sell you a band
or a gadget with
the promise that
one will get
fit just by
wearing it"**

VISHAL GONDAL,
Head, GOQii

THE ROAD TO FITNESS

How GOQii works to help customers achieve their health goals



The wellness industry in India is estimated to touch ₹100,000 crore by 2015, according to a 2012 report by FICCI-PwC. Look around at the mushrooming of gymnasiums and nutrition supplement stores in your locality, and you can imagine that the figure may be higher than that.

Clearly, Indians, just like human beings around the world, want to get fit. Entrepreneurs are, therefore, jumping in to help them along the way, many of them wielding wearable devices. Globally, there is Fitbit, Jawbone, Garmin, and even Nike which sells FuelBand to measure body movement. Fitness-tracking companies are mushrooming in India, too – Bangalore-based

GetActive, for instance, also sells bands. The worldwide wearable electronic fitness devices shipments are expected to rise to 91.3 million units by 2016, from 73 million in 2013, according to Gartner.

GOQii, though, is not just a devices company. It also provides services, just like Apple. Gondal is selling a subscription plan. “We don’t charge for the device, we charge for the service and the relation with the mentor.” You can get that for three months by paying ₹3,999, six months for ₹6,999, and 12 months for ₹11,999.

The company claims to be the only one in the business to combine service with the device. The device, a band, is worn around the wrist, like a

watch. It collects data such as steps taken and distance walked. It also tracks calories burned and sleep patterns. The data generated is fed into an app that a personal fitness coach can analyse.

The coaches help you set goals. They stay in touch through the app and make suggestions. They send you a virtual hi5 when you do well. The coaches, in turn, are helped by a bunch of expert “habit designers”. By the middle of 2015, Gondal says, the company will have a few thousand trainers on its platform.

And it is embracing the competition rather than fighting it. “We will announce our integration with other hardware and you could use your

GOQii with your Jawbone, Fitbit, Google watch, and the Apple watch."

The Voice in Your Band

The idea of GOQii arises out of personal experience. Just as Phanindra Sama thought of setting up redBus when he could not get bus tickets from Bangalore to Hyderabad for the Diwali holidays of 2005, Gondal thought of a service during his own struggles to get back to fitness.

His appearance, with well-concealed six-pack abs, may throw you off track, but Gondal is a regular marathon runner. It took a lot of effort, though, to regain this level of stamina and fitness after years of long working hours and irregular eating during years of being an entrepreneur.

A national-level volleyball player in his younger days, Gondal never came to terms with his lack of fitness and put himself through an unforgiving regimen with the help of a trainer who guided him regularly through WhatsApp.

Why WhatsApp, thought Gondal, and set up GOQii.

Experts say more than 80 per cent of people quit fitness efforts within a couple of months. Mostly that is because a fitness regime can be lonely pursuit. Gondal believes he will be able to overcome this two-month barrier. "People have bought treadmills and are now drying clothes on them," he says. "Most people know what to do. The problem is that they lack the motivation."

GOQii is available on most smartphones on Android, Windows' Lumia, as well as Apple's iOS. A recent tie-up with Windows makes its band available with certain devices to customers in Mumbai, Pune and Ahmedabad, along with a subscription for three months. Gondal plans to go in for more such tie-ups.

To Each Her Own

His service is, indeed, unique, says James Moar, analyst with

Juniper Research. "There are other players who offer coaching and data via algorithms and benchmarking, but charges for this (Fitbit Premium, for instance) are supplementary to the initial cost of the hardware, not bundled with it."

There are other start-ups that provide fitness coaching, albeit without a device. One of them is Stepathlon. Founded in 2012, it ties up with companies and organises a mass fitness race, lasting about 100 days, between employees of an organisation as well as between organisations. Its cornerstone is a pedometer that shares the number of

"We see that the people we're still talking about are enthusiasts and early adopters.

As we speak, these devices have a long way to catch up"

KIRAN KUMAR,
Research Manager-Client
Devices, IDC



steps taken by the participants and helps Stepathlon set targets with an interactive interface, over the phone or on the website, to motivate the participants to become more active.

"We are trying to get people to do stuff long enough to make it a habit. Once it becomes habitual, you have won a part of the battle because an average person is not motivated enough to go for a run every day," says Ravi Krishnan, co-founder and CEO of Stepathlon. "We engage and give people the opportunity to use (the device), else our wearable, too, would end up in the drawer."

TheWeightMonitor.com, founded by Ishi Khosla, a clinical nutritionist and consultant, is a website and a mobile application that reaches customers in 120 cities worldwide. The service provides customised instructions and ready scores to the customer.

The marketplace model, which is GOQii's model, has willing-takers. But no one has been able to monetise it, according to Niti Desai, who has been a nutritionist for 15 years. "Some companies did approach us... But it didn't work because of the timings of the two professionals. There is so much back and forth." According to Desai, the old system works better. "If you've taken an appointment, you will try to keep it."

Going Beyond the Serious

The challenge for anyone looking to profit from fitness is to push it beyond the realm of the ailing and the enthusiast. "Right now it's restricted to serious sports enthusiasts or people who want to be in that space and have the ability to afford such devices," says Ankur Bisen of Technopak Advisors.

In theory, the thought of a coach available at all times is appealing. But experts say that enthusiasts who look for achieving a specific aim, say to run a marathon, will be able to work with standalone devices, such as Nike's FuelBand, Fitbit, Jawbone, and the like. For the self-motivated, the data on the

devices will be enough, no coaching will be necessary.

"We see that the people we're still talking about are enthusiasts and early adopters. As we speak, these devices have a long way to catch up," says Kiran Kumar, Research Manager-Client Devices, IDC.

Then there are gyms, which like to call themselves fitness centres. They have their own appeal of person-to-person connect and an ambience in which you get motivated by watching those around you sweat, swagger, and strut.

Amit Sawant, National Head of Marketing and Communications at Talwalkars Better Value Fitness Limited, says the company organises events such as "the biggest loser" to keep people engaged. "Retaining a customer is more beneficial than hunting for new ones because the catchment is limited," he says.

Debashish Biswas of Fitness First says centres like his have to get more innovative to make exercise more fun, which can be done better if the trainer and trainee are present at the same place. "There could be issues where people need immediate attention or the programme needs to be revised... such a thing [in case of virtual coaches] could be a disaster, because the trainer is not with you."

Ahead of Its Time?

Biswas and his ilk, however, have to contend with the irrepressible surge of wearable devices, which lend themselves easily as fitness aides. Gartner predicts that by 2016 smart watches will constitute about 40 per cent of wearable devices for the wrist. Seven out of the top 10 smartphone vendors have either already entered the space or are about to. A year ago, there were two.

The Consumer Electronics Show in Las Vegas this year saw numerous smart watches unveiled by Alcatel, Garmin, Sony and Lenovo.

"Competition is increasing and the market is huge," says Ali Rizvi, National Sales Head, Garmin India,

adding that Indians are embracing good-quality products. The company launched Garmin Vivofit band in India in August last year.

This would not hurt GOQii's business, since Gondal plans to be on most smart devices. "The device is irrelevant, whether you use a GOQii or a Nike, or an Apple device, all the data will go into the GOQii platform," says Deepak I. Shahdarpuri, the Singapore-based Managing Director of DSG Consumer Partners and Beacon India Private Equity Fund, who has invested in the start-up.

But is the market ready for GOQii? Delhi-based freelance Fitness Instructor Manisha Singh, who has

been in the industry for 11 years, says that though there is a market for fitness today, it is still much smaller than it is in the US or UK. "It will take time to grow, say three to four years."

Also, about a fourth of fitness devices will be sold through non-retail channels starting between 2018 and 2020, notes a recent Gartner report. "During this time scale, smart wristbands and other fitness monitors will be offered increasingly by gyms, wellness providers, insurance providers, weight-loss clinics or employers, sometimes at subsidised prices or for free," says the report.

This is exactly what GOQii is working towards. However, issues will arise as it reaches more and more people and enters the international market, which it plans to.

Juniper's Moar says GOQii will find it increasingly difficult to offer the same quality of service to all customers. The software may also become an issue while dealing with international or multilingual markets.

"With the hardware being commoditised, software must be the focus of the overall offering," says Moar. "Firms need to be ready to be able to process user data in large volumes, although with initiatives like Google Fit and Apple Health storing data on the devices themselves, it is becoming less of a problem of storage and more of how to produce a differentiated product."

To Sanjay Parthasarathy, CEO & founder of Indix, an investor in GOQii, whatever Gondal does will be interesting and productive. "The question now to me is whether he can execute to the point where it goes from being a validated concept to a super successful product."

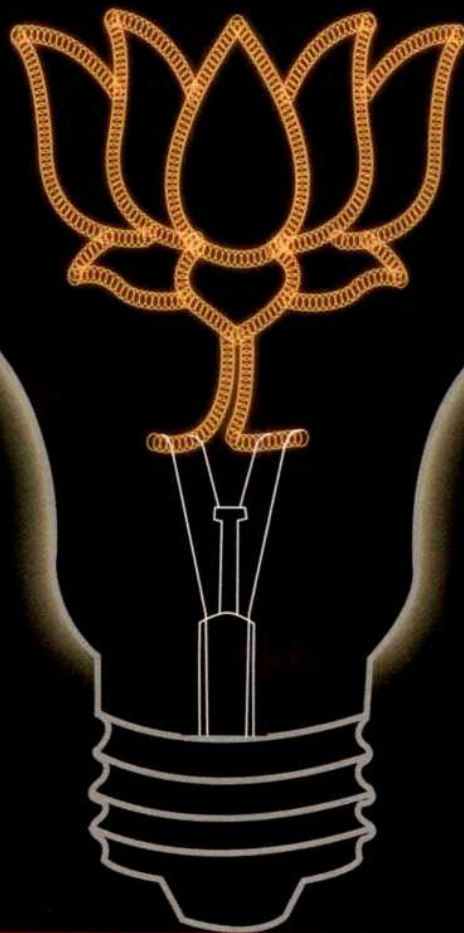
Meanwhile, Sandeep Chaudhary, just back from his honeymoon, has found an ally in his wife Tanu. "We motivate each other to at least get the diet bit right." For now at least, they are not missing a third voice. ♦

@arpitamukherjee

"We engage and give people the opportunity to use (the device), else our wearable, too, would end up in the drawer"

RAVI KRISHNAN,
Co-founder and
CEO, Steppathlon





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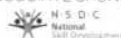
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SHOP ON THE GO

EXECUTIVE SUMMARY

South Koreans have amongst the longest working hours in the world, with young, upwardly mobile executives often too busy to go shopping for grocery at a traditional store. The UK's giant retailer, Tesco, sought to turn this disadvantage to its benefit. It introduced "virtual stores", which are essentially a display of products on walls of metro stations and bus stops. Commuters, especially the tech-savvy, ultra-busy lot, could scan the QR codes of the products on display with their smartphones, and place their orders even as they waited for their trains or buses. This case study looks at how Tesco "virtually" created a new market based on a country's lifestyle.

By **MARTIN PETIT DE MEURVILLE**, **KIMBERLEY PHAM** and **COURTNEY TRIN**

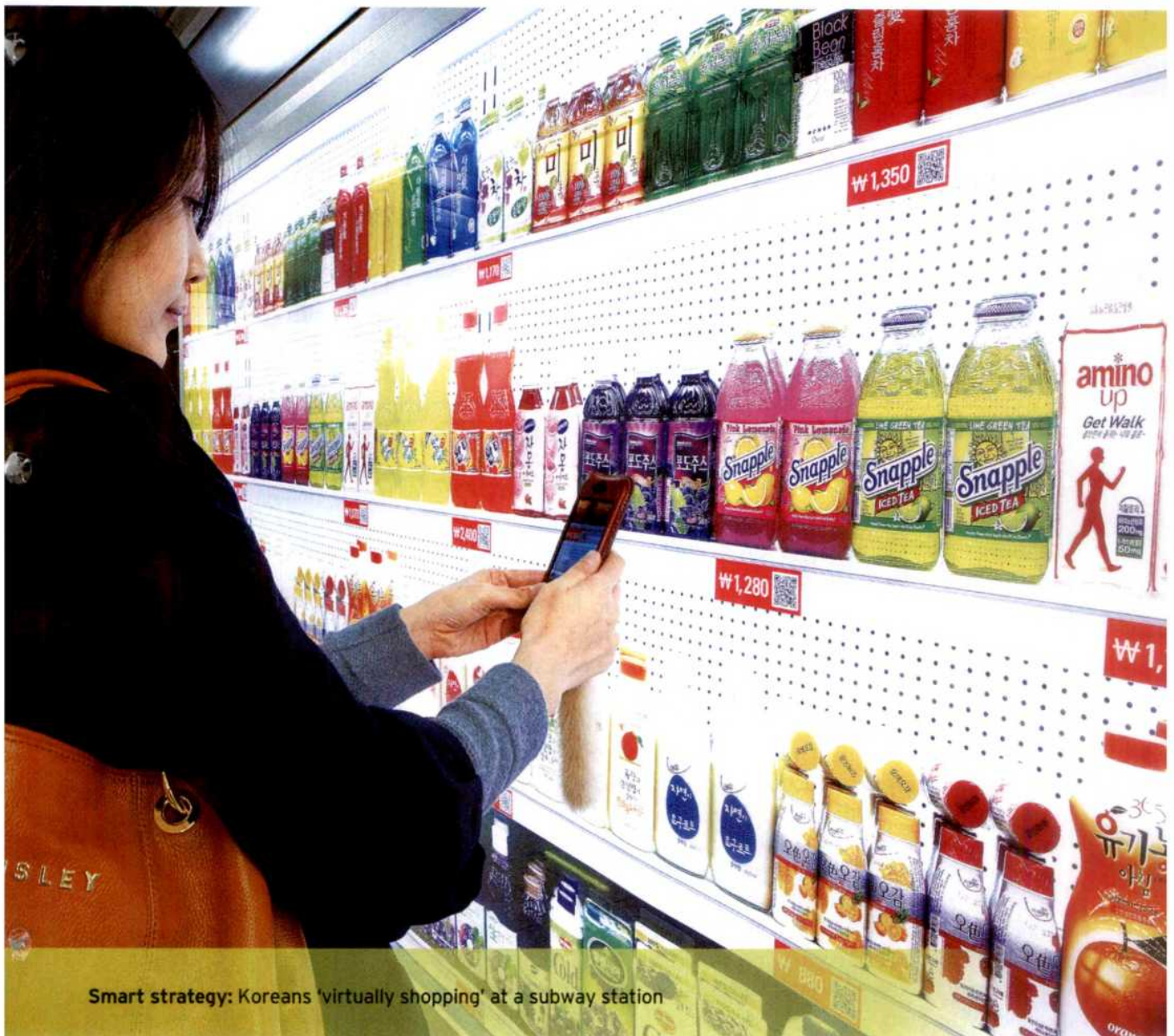
In 2011, when domestic sales of the UK's retail giant Tesco slumped, it fell back on its second-largest market, Asia, which accounted for 30 per cent of its total profit. Tesco's success in Asia, and specifically in South Korea – currently its largest market outside the UK – is based on its ability to adapt to the local consumer.

Tesco's expansion into Asia has been an important focus for the com-

pany since the late 1990s. Following its acquisition of Thailand's Lotus in May 1998, the company announced a £142-million investment in South Korea in March 1999 by partnering with Samsung to develop hypermarkets. Through its tie-up with Samsung, Tesco made a localisation effort to adapt its Homeplus stores to the local consumer.

The latest example of this localisation was the launch in 2011 of its first virtual store, located in a Seoul





Smart strategy: Koreans 'virtually shopping' at a subway station

IMAGE COURTESY: LILDOREMI.ORG

subway station, an idea based on the observation that the typical Seoul commuter did not have the time to shop at her nearest brick-and-mortar Homeplus store.

The Virtual Store

The virtual stores are set up in public spaces, most often in subways and bus stops with high foot traffic and frequented daily by tech-savvy commuters. This is how such stores work:

- Interested customers download

the Homeplus app into their smart-phones.

- They then use their smart-phones to scan the QR codes of the products they want to purchase. The posters in the virtual stores are designed to resemble the actual aisles and shelves of a regular Tesco store, making the experience very user-friendly.

- The scanned products are stored in the customers' online shopping basket, who pay online once

their order is completed. Homeplus reported that the majority of the orders are placed at 10 am and 4 pm, when people are commuting to and from work.

- Customers schedule a time for home delivery. Same-day delivery is the norm, so that customers can get their products by the time they get back home from work.

The virtual store has been a huge success with commuters and drove over 900,000 app downloads in less

RETAILERS STRUGGLING TO DEVELOP COMPETENCIES TO SUCCEED GLOBALLY

One of the most dramatic changes in retailing over the past two decades is its rapid globalisation. As a result, what used to be a local, unsophisticated, “mom and pop” business is being transformed into a global and technology-intensive growth sector. In support of this thesis, consider premier global retailing brand names – such as ALDI, Body Shop, H&M, IKEA, Marks & Spencer, Toys R Us, Walmart, and Zara – who are adorning the streets of several countries. They combine their finely-tuned value proposition with superior retailing skills, global sourcing, and access to capital to create value for both their customers and shareholders. Going international is one of the primary growth strategies available to a retailer when its domestic market is saturated.

Despite the popularity of globalisation in retailing, most retailers are still struggling to develop competencies to succeed in global markets. To what extent should the “original” format and merchandise be adapted is a major issue. Walmart learnt this the hard way when its initial entry into China had the wrong merchandise. On the other hand, Mexican customers were disappointed when they did not find enough imported US merchandise in the Walmart stores. Toys R Us has learnt that there are differences in consumption patterns. The Japanese demand electronic toys, other Asian consumers demand educational toys, Europeans favour traditional toys, while American kids prefer television- and movie-endorsed toys.

The Tesco case in South Korea demonstrates that despite the company’s many problems, it has been a leader in developing multichannel solutions. With consumers preferring the convenience and selection of e-commerce, traditional brick-and-mortar retailers are challenged to address how to serve this customer profitably. The home-delivery option is much valued by consumers but cannot be as profitable as the traditional store. Therein lies the dilemma.



“Despite Tesco’s many problems, it has been a leader in developing multichannel solutions”

NIRMALYA KUMAR

Visiting Professor of Marketing, London Business School, and Member, Group Executive Council, Tata Sons

than one year, making the Homeplus app the most popular shopping app in South Korea. Online sales increased 130 per cent since the introduction of the virtual stores and registered app users increased by 76 per cent. In February 2012, Tesco Homeplus announced it was extending the virtual store concept to 20 new locations across the country. Today, there are 22 Homeplus virtual stores in South Korea, and the brand is the country’s No. 1 online retailer.

Understanding the Consumer

South Korea, a country of around 50 million people, is the fourth-largest economy in Asia and the 12th largest in the world. Compared to other Asian countries, South Koreans generally have higher levels of education, higher average household income, and better living standards. Over the past few decades, the country has built itself up with its largest resource – people – and has achieved rapid economic growth through exports of manufactured goods. It is now a major producer of automobiles, electronics, steel and high-technology products such as digital monitors, mobile phones, and semiconductors.

Over the past decade, South Korea has advanced tremendously and has been shaped by constant innovation, technology and westernisation. In today’s world, shopping habits and behaviour of South Korean consumers are impacted by several key factors.

Extensive use of technology/connectivity: According to a report by McKinsey & Co., South Korea is one of the most advanced countries in terms of broadband penetration, and has more than 10 million smartphone users. In other words, one in five South Koreans use a smartphone. Additionally, according to Nielsen, households in South Korea are making six per cent fewer shopping trips. When they do shop for products, an increasing number of South Koreans go online.

Long working hours/busy lifestyle: Although the average annual hours worked per person in South Korea is declining, the country still comes out top among OECD countries with 2,193 hours. This is perhaps unsurprising, as the work ethic and lifestyle of South Koreans get shaped at a young age. According to the BBC, South Korean parents spend thousands of pounds a year on after-school tuition on an industrial scale. There are just under 100,000 hagwons or private academies in South Korea and around three-quarters of Korean children attend them.

Travel time on public transportation: South Koreans spend a significant amount of time on public transportation, predominantly between home and work. What has helped is that public transportation is reliable and inexpensive, and is the fastest and most efficient way to get around.

The introduction of Tesco's virtual stores in subways made use of time spent by commuters waiting for public transportation, allowing buyers to use the little time they have available for grocery shopping. Not only did this change the way buyers shopped, it also increased the potential market for Tesco. These buyers may not have otherwise had time to go grocery shopping between their personal and professional lives, opting to buy take-out instead.

All of this implies that grocery customers in South Korea are more time-poor and less price-sensitive. They value convenience and technology to accommodate their busy lifestyle.

Tesco's Value Proposition

Globally, Tesco's customers are price-driven buyers who look for value and/or convenience. According to its corporate website, Tesco's customers care about the following areas: (1) price and value (2) multichannel and convenience, and (3) trust. Typically, therefore, the company's value proposition is to provide customers with

VIRTUAL STORES COULD SEE ACCEPTANCE LARGELY FOR TOP-UP OR IMPULSE PURCHASES

Virtual retail, such as Tesco Homeplus in South Korea, is an innovative concept that has witnessed success in various forms across developed markets. Today, we can be optimistic about the acceptance of new concepts by Indian consumers with the recent success of e-commerce and increasing penetration of smartphones – online shoppers have grown to 35 million from 8 million in 2012, and smartphone users have climbed four-fold to over 110 mn in the same period.

A virtual store would offer consumers the 'convenience' of online retail and the 'experience' of brick-and-mortar stores. However, we can expect significant challenges in implementation in India. The target segment would be very niche – young, urban, middle class, time-strapped, convenience seekers, whose needs are fulfilled by either neighbourhood mom-and-pop stores, or e-commerce sites like BigBasket.com and LocalBanya.com.

To reach this niche target consumer with virtual stores would be different in every Indian city. Mass public transport transit areas, such as local train stations in Mumbai, are unlikely to be successful given the high traffic and quick movement, while tier-I city airports may be ideal given the audience and transit time. Also, common areas in residential, commercial and shopping complexes could potentially thrive.

The success of virtual retail would also hinge on a strong back-end for order fulfilment and a supply chain enabling timely delivery. An extension by online retailers or organised neighbourhood retail chains such as Godrej's Natures Basket or Reliance Fresh, who have an existing set up could prove successful. However, such a concept may not be viable on a standalone basis. A hybrid model could be a marketplace aggregator who could use the existing kirana stores for delivery.

As the concept is fascinating to consumers, virtual stores could see acceptance largely for top-up or impulse purchases.

“Virtual stores would offer the convenience of online retail and the experience of brick-and-mortar stores”

NANDINI CHOPRA,
MD, Corporate Finance Group,
Alvarez & Marsal India





Buying on the move: Tesco's virtual stores in subways made use of time spent by commuters waiting for public transportation

the products that they want at a low price. Tesco executes this proposition through multiple channels, including hypermarkets, grocery stores, convenience stores and online. When Tesco first entered South Korea, it offered this value proposition for the local customer: to provide the variety of products that the South Korean customer wants at a low cost in a beautiful store environment.

As the economy progressed and South Koreans invested more time and money into their careers and high-tech devices, Tesco adapted its value proposition to fit its on-the-go customers. By introducing the virtual store, Tesco Homeplus is able to execute its new localised value proposition: provide the variety of products that the customer wants in a convenient location and at a low cost.

In South Korea, it can be argued that Tesco's customer values multichannel options (for example, online and mobile), and convenience much more than price. According to a March 2013 research from MasterCard, around 40 per cent of online shoppers in South Korea used their smartphones to make a purchase in the previous three months.

Image-value-experience Triangle

In addition to the virtual store's strong value proposition, Homeplus has also

developed a strong image and experience that mutually reinforce this value proposition. The Homeplus virtual stores attract their customers through their quick, tech-savvy, and cool image. They sell to their customer by offering the value of extreme convenience that the customer requires. And they are able to keep their customers by offering them the satisfying experience of easy-to-use technology, on-time delivery and quality products.

Given that the South Korean on-the-go customer places much greater value on convenience than on low prices, Tesco Homeplus may have been enticed to increase product prices through their virtual store channel. However, we believe that Homeplus decided not to increase

prices in order to maintain its overall Homeplus value proposition, which hinges on providing desired products at low prices.

Key Learnings

This case study highlights important learnings that can be applied, generally, to other businesses:

Customer-based marketing: A "real-world" application of the new marketing paradigm, in which the process starts with the consumer and his or her needs, as opposed to with the product.

Customer segmentation: When you enter a new market/geography, companies need to understand and analyse consumer behaviour trends, including shopping habits and purchasing behaviour, to identify who the valued customers are and how they behave.

Adaptation of value proposition: If the needs, attitudes and lifestyle of the company's "value customer" are different in the new market/geography, the company needs to adapt its value proposition and value network across the entire supply chain.

Power of technology in traditional industries: Technology has a disruptive power in traditional industries, such as retailing. In this case, the predominance of smartphones in Korea allowed Tesco to boost its revenues through an innovative approach.

Innovative marketing: The way marketing can be used innovatively to target captured audiences (such as commuters waiting for the next train in a station).

Brand Extension: One option that Tesco Homeplus may have considered in order to take advantage of is to create a new brand for the virtual stores that would have remained independent from the Homeplus brand and, therefore, limited the risk to the Homeplus brand by increasing prices. ♦

(This case study is from the Aditya Birla India Centre of London Business School)

Q What can we learn from Tesco's virtual store strategy?

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Facing the New Reality

Eight questions that gutsy leaders can ask to uncover the truth about their organisations and competition.

By
Drs. KEVIN and
JACKIE FREIBERG

Competitiveness demands commitment to truth and willingness to confront brutal facts. Unfortunately, most of us have biased perceptions of how the world works and how companies perform. In the absence of candid feedback, it is convenient to assume that reality is similar to our preconceived ideas. But, ignorance and denial can be costly. That's why gutsy leaders seek to uncover the truth by asking tough questions:

What do you like or dislike about working for this company?

When Mike Abrashoff became captain of the USS

Benfold, a \$1 billion guided missile destroyer, he asked this question to all 310 sailors. Once the crew realised that he was seriously interested in their opinions, the ideas started to flow. Over the next two years he used the answers to make Benfold the most combat-ready ship in the US Navy. Soon, Benfold had the highest retention rates, the best gunnery scores and the most efficient operations. It won the Spokane award given to the best ship in the Pacific fleet.

What are the 10 dumbest things we do in this organisation?

Every organisation does dumb things. These things create waste, redundancy and inefficiency that slow it down in a world that rewards speed. Jimmy Blanchard, former CEO of the highly successful, multi-billion dollar Synovus Financial Corporation, was famous for hosting a quarterly meeting with top leaders of the Synovus system, where he would ask: "Let's talk about the dumb things we do around here – starting with me – so we don't do them anymore." The prob-

lem in most firms is that people don't want to focus on the negative. They're afraid that it will turn into a blame game and cast a dark cloud over employee morale. Synovus says: "Let's be honest, let's get it out in the open so we can learn from our mistakes!"

If you were in charge, what would you do differently?

Where you stand determines what you see. Employees frequently get trapped in the "I'm not the CEO" mentality. It limits their creativity and causes them to feel powerless. Not only does this question force them out of that mould, it also raises issues you may not have considered. It is amazing what can be learned when you put people through the intellectual exercise of being in charge. Give them ownership; let them run their own show and the whole mindset changes. What emerges is a whole new set of ideas. The most innovative firms in the world tap into the intellectual capital of the entire workforce. Everyone has a voice. People are honoured when someone values them



Drs. Kevin and Jackie Freiberg are founding partners of the San Diego Consulting Group, a leadership, change, innovation and future trends consultancy. The Freibergs are the co-authors of several books, including NUTS! Southwest Airlines' Crazy Recipe for Business and Personal Success, and NANOVATION: How a Little Car Can Teach the World to Think Big. They can be reached at freibergs.com

enough to say: "Play CEO for a day and tell us what you come up with."

What are the specific preferences of our top 100 customers?

What information do we need to build a stronger relationship with our customers? Do we know as much about them as our competition does? What strategic decisions have we made based on their profiles and preferences?

Customer relationship management is less about technology and more about culture. It's the discipline of employees to capture data, turn it into knowledge and insight, and then leverage and apply it. Technology is simply the enabler. We're living in a time when customers want to know that the product and service experience is specifically designed for them. Nail down their preferences, give them an opportunity to teach YOU about THEM and you earn the right to continue to play the game.

Do we justify better performance among our competitors by higher wages or have they built a culture that values people more than we do?

It's easy to say: "Our competitors have an advantage because they pay more." That may be true, but research indicates it would have to be a lot more. Few people are willing to walk across the street for a minimal pay increase. However, they will walk for a more

exciting place to work that genuinely cares about them. Offer people an opportunity to solve problems that matter, to do things that are memorable and heroic, and you will get their attention. Gusty leaders see culture as one of their strongest competitive weapons. Perhaps the real answer to turn our culture into an extraordinary magnet for talent and a powerful catalyst for productivity.

Have we nervously written off competitors with lower prices as "out of their mind" or have they actually figured out a better way to drive costs down?

Are they foolish or simply better than we are at managing costs? By cutting prices are they using a short-term strategy that

could be their demise in the long-run. Or, have they created a culture of ownership and accountability that is more frugal? Are we looking for new ways to eliminate redundancy? Do we have a "start-up" mentality with regard to shopping for the best prices from suppliers? How long can we remain competitive if the reality is that our competitors have better technology, processes and people than we do?

Why is competition beating us with one product after another? Is it because "they spend more on R&D" or is it because politics, bureaucracy and fear immobilise us?

Medtronic, the leader in medical technology, has an annual goal. The com-

pany seeks to achieve 70 per cent of sales from products developed within the last two years. It's practically impossible to increase the speed of the product development cycle unless people have the freedom to experiment. Do our people believe they can test new ideas, try new things and frequently challenge the status quo without fear of reprisal? Have we created an environment that serves as an incubator for new ideas? Do we have a culture where everyone owns innovation?

What was the last NEXT practice we created?

Best practices are good for blocking and tackling, and for incremental improvements. But if the only strategy you have is to emulate someone else's best practice, the best you are ever going to be is a good #2. In a world where everyone and everything around you is constantly getting better; and where savvy customers are asking: What's new? What's next? You better be thinking about next practices. They come from the intersection of major trends. Next practices come from another industry's best practices tweaked and adapted for your industry. They come from being the customer, watching how they work around or modify existing products and services, and then giving them something they didn't know they need, but can't live without. ♦



MAY THAKURI



AJAY THAKURI

Gadgets for the Sleep Deprived

A good night's sleep is a must but, often, hectic routines play spoilsport. Here are a few devices that can help you get some. **By NIDHI SINGAL**

Gadgets are a big no when you're about to sleep because you may end up spending hours either watching your favourite TV series, chatting with your friends or playing games on your smartphone. However, there are a few gadgets that are specifically designed to track your sleep pattern and induce restorative sleep. These aren't your regular gadgets that are easily available. You can either purchase them on international online stores, such as Amazon.com, or pick one while travelling abroad.



Zeo Sleep Manager Pro

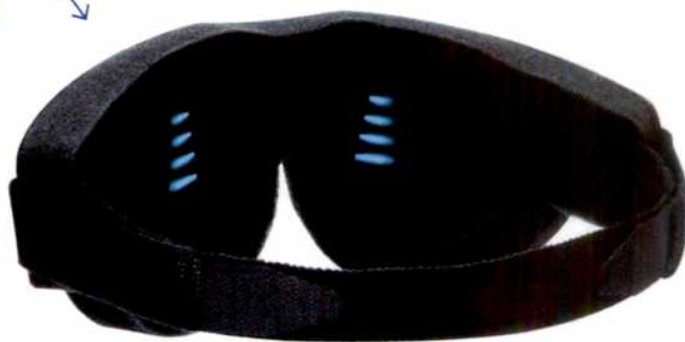
There are many new-age wearable bands that track your sleeping pattern based on the hand movement, but they are far from being accurate. Zeo Sleep Manager Pro does the job perfectly. It has a headband with three forehead sensors and a small electronic module attached to it. There are apps available for the iOS and Android platforms that collect data over Bluetooth. Once paired with the smartphone, wear the headband, which requires two hours of daily charging, to doze off. One can visit the Zeo website to learn more about what to eat and how to relax to improve sleep.

PRICE: \$99

Go To Sleep

An eye mask that helps calm the mind, relax the body and improve sleep. Like most other eye masks, it blocks light completely. It also has soft points of blue lights embedded in the cupped eye cover. After putting it on, you need to gaze at the soft pulsing blue lights. As you focus on them, they draw you away from the recurrent thoughts that keep your mind preoccupied. Once you start following the light, you will feel like closing your eyes and as the light starts fading you will end up sleeping. A perfect travel companion, it is well padded and provides cushioning around the eyes.

PRICE: \$25



Sleep Infuser

The Sleep Infuser is based on an audio technology that uses natural soundscapes, such as ocean waves, rhythms of steam trains and cocoon environments, to help block background noise and distractions. The soundscapes have a pattern of low pulses with a discreet hum. The company says the pattern works on the brain without interfering with the cognitive and sensory faculty and gently coax the brainwave patterns to induce sleep. The Sleep Infuser has an intelligent timer system that can vary the intensity of the sounds.

PRICE: \$449



Holi SleepCompanion

The Holi SleepCompanion is a smart bulb with 20 light sources that helps you fall asleep. The bulb is designed to synchronise with your body's biological rhythm to generate the right intensity at the right moment. It is measured using a smartphone app that analyses sleep patterns. The lamp can even wake you up by softly increasing the intensity of the light. This bulb can replace the nightstand lamp.

PRICE: \$99



NightWave Sleep Assistant

The NightWave Sleep Assistant is a small, light-weight box that projects soft blue light to help one relax within minutes. It is a seven-minute pre-sleep exercise: breathe in as the blue light gets bright and exhale as it softens. The company says that you are likely to doze off by the time the seven-minute session is over. The gadget is ideal for those who have a tendency to wake up in the middle of the night and find it difficult to go back to sleep again.

PRICE: \$49.95



APPSOLUTELY

A look at some value-added apps.

By NIDHI SINGAL



InTouchApp

Phone book is one of the most important functions on your mobile phone. This app helps you to manage, backup, view and restore contacts from any device – Nokia, iPhone, Android, BlackBerry, etc. To get going, complete the app registration process. It will automatically back up all contacts on the server. If you want to access your contacts on a different phone, you simply have to login to it and the contacts will be downloaded from the server. It also eliminates duplication and saves images of visiting cards for future references, but does not add them to the contacts list in text format.

PLATFORM: iOS, Android, BlackBerry; Free



BrainWave Music Control

For most smartphones, accessing music controls can be a tad cumbersome. This is where the BrainWave Music Control app makes a difference. It allows users to control music panels with hand gestures even when the display is turned off. This facilitated by the phone's front camera. The app runs in the background. When you use it for the first time, you will find detailed information on how it functions through a tutorial. Once you link the music player app to it, you can start playing music. If you swipe left the music restarts, while swiping right skips the current track. Placing the hand on the screen plays/pauses the track.

PLATFORM: Android; Free



Simply Voice

Of late, the voice assistant feature on smartphones, such as Siri on iPhone and Google Now on the Android platform, have been really popular. However, if you still wish to use a close-to-flawless app that is quick and responds well to Indian English dialect variants, then Simply Voice is for you. A soft tap on the microphone initiates the voice assistant. The app responds to voice commands within seconds to launch the app, make calls from your contacts list and search the web, among others.

PLATFORM: Android; Free

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BLENDING THE OLD AND THE NEW

Fans of the Bold 9900 swear by its design, keyboard and trackpad. The all-new Classic is designed along the same lines. By NIDHI SINGAL

BlackBerry Classic is a smart blend of the BB 10 operating system and the old hardware of the Bold 9900. It comes with a touch display and the old navigation keys, including the trackpad and the back key, are back.

Design: It is identical to the Bold 9900. But when you hold it in your hand, you will feel the difference. It has a 3.5-inch screen, a row of navigation keys followed by a four-row QWERTY keypad. Weighing 177 grams, it is a bit bulky and feels slightly heavy. The power key sits on the top and the volume key is mounted on the left side. The textured back cannot be removed. The SIM and microSD card slots are placed along the left rim.

Keyboard: Today, it is hard to find a smartphone that boasts of a physical keyboard, except the BlackBerry. But the Classic's 35-key backlit keyboard is a delight to use. Honestly, I wasn't sure about using a physical keyboard after being addicted to the touch phones for over four years now. But typing on the Classic was smooth.

OS 10, trackpad and performance: BlackBerry OS 10 has been about the touch interface. To unlock the device, swipe up from the bottom of the screen. If you press 'U' followed by the enter key it also unlocks the phone. Swiping left to right opens the Priority Hub and shows emails, texts, BBMs and noti-



fications. You can also access it by using the trackpad. You can minimise all apps either by swiping the bezel towards the top or hitting the back key. BlackBerry has smartly integrated a trackpad with its BB OS 10. I enjoyed navigating on the phone using the trackpad. It was not only easy to operate with one hand, but also allows to comfortably reach out to the top of the display.

The Classic is powered by Qualcomm Snapdragon 8960 chipset, 1.5 GHz dual core processor and is paired with a 2 GB RAM. Despite the processor being a tad slow, the primary functions of checking emails, web browsing and downloading apps from the BlackBerry World worked smoothly. There is also an Amazon App Store for the phone. The only issue with BB smartphones is the lack of apps in the BlackBerry World. While it supports Android apps, the experience wasn't as great because of a lag.

Camera: BlackBerry has added an 8 MP rear camera to the Classic, which isn't too bad. It captures reasonable images even in decently-lit surroundings.

Battery: The Classic has a 2515 mAh battery that lasted over a day-and-a-half with hours of calling, web browsing, BBM, and social media and chatroom activities. ♦

BAG IT OR JUNK IT:

If you are addicted to a keyboard, this one is worth the upgrade. But is priced slightly on the higher side

PRICE: ₹31,990

RATING: 4/5

PLUS: Trackpad, keyboard

MINUS: Price, apps

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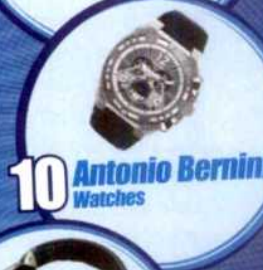
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Rewarding Journeys

The authors capture the lives of 10 entrepreneurs who dared to dream and the lessons to be learnt beyond the MBA courseware.

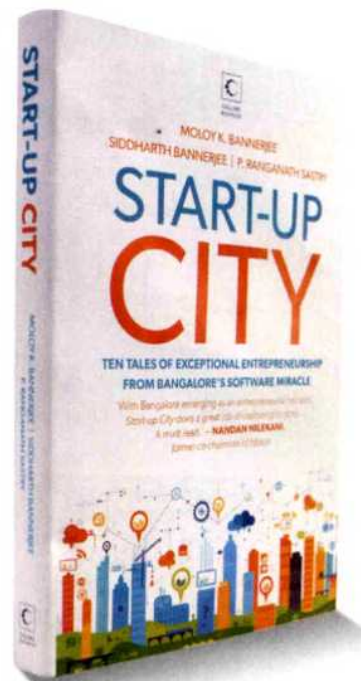
In the current wave of biopics, *Start-up City* is an excellent collection of interesting stories of some of India's promising entrepreneurs. The collaborative authors have not left it to narrative, but presented insightful learnings from each of their journeys. This book is all about how individuals can pursue their dreams and live their lives by simply following their passion. By the method of this book, the authors have competently put together a profile of successful business people who have started their businesses with limited investments. Through a case study of the 10 committed individuals, the authors have reflected that regardless of the lack of extraordinary talents, these people discovered how an interest and ability could be used to build profitable businesses.

The ability to take risks, power of networking, customer focus, persistence and the determination to do one's own thing rather than working for others, are all commonly heard in the entrepreneurial world. But the power of these amplifies when one sees it practiced and followed, and, more importantly, become the cornerstones in the lives of these entrepreneurs. Bharat Goenka's focus on the "user", NV's problem solving approach, BVV's ability to build a team, Kini's open mind to adopt "sachetization", Ramki an inveterate entrepreneur – teacher, Meena and Ganesh's complementary partnership, MP's talent-building model, Venkat and Krishnan's conversion from jobseekers to job creators, Vijay's ability to cater to the unserved, and Ravi's tenacity to do business with the government, capture the very essence of the entrepreneurial mind. *Start-up City* provides a unique insight into the minds and thoughts of these inveterate men and women.

These 10 entrepreneurs represent the industry of New India – the IT industry, which bred the first-generation middle class entrepreneurs who dared to dream. They infuse a sense of confidence and a "can do" attitude in the reader. It brings together the real life of an entrepreneur – a lonely life and the fact that he's on always on "sell" mode – with customers, employees, vendors, friends, family and even the spouse. These entrepreneurs are representative of what is happening across the nation – thousands of start-ups are breeding across the country's cities and towns. It has become the "career of choice". Many have succeeded but even more have failed.

What the authors are doing is something very important – celebrating entrepreneurship and giving it the place of honour as a noble profession. This is seminal as it is a perception-changing book which will hopefully change the entrepreneurial landscape in India. Each of these entrepreneurs dared to dream and walked a lonely path, stumbled, got up to run again. Their life lessons are beyond MBA courseware. It's racy times in India and the world looks on as our entrepreneurs take to the road. For readers keen on Indian entrepreneurship, the hardships and successes of these entrepreneurs will certainly be an interesting and significant reading. The book will particularly appeal to young and aspiring entrepreneurs who are seeking inspirational and implementable key takeaways to follow on their personal journeys. The writing is simple and easy to understand, and gives a thorough insight to management and entrepreneurial lessons in the most interesting manner. ♦

PADMAJA RUPAREL, President, Indian Angel Network



Start-up City

By Moloy K. Bannerjee,
Siddharth Bannerjee
and P. Ranganath Sastry

PAGES: 216 (Hardcover)

PRICE: ₹273
HarperCollins India

The authors are doing something very important – celebrating entrepreneurship and giving it the place of honour as a noble profession

Chemistry from the Sun and Seas

From salt to soda ash to fertilisers, the story of Tata Chemicals' evolution.

It's said that without salt our civilisation may not have progressed. It was the ability of this simple compound to preserve food that helped humans travel, grow and flourish. Born out of a chemistry between poisonous chlorine and corrosive sodium, this placid compound is also the starting point for many a chemicals company.

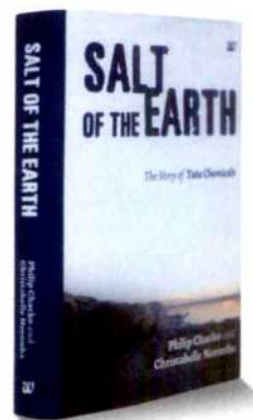
The journey of Tata Chemicals, which turned 75 in 2014, too began with salt. Or, as the *Salt of the Earth* points out, it began with India's pioneering salt man and, perhaps, one of our first chemical engineers, Kapilram Vakil, who set up the Okhamandal salt works, in present-day Mithapur. This was acquired by Tata Chemicals. Today, Tata Chem produces not just salt and chemicals, but fertilisers, water purifiers and pulses, among others.

Vakil was a remarkable man who not only battled with science and research, but was also an ardent nationalist who struggled against the constraints placed by the British. He had to deal with cartels from Aden and fierce price discounting to kill Indian manufacturing. The story contains other interesting people – from Darbari Seth, his son Manu, to JRD and Jal Naoroji, and the workers at Mithapur, who have been brought out of anonymity. A comment by one of them on how the company's character has changed from the time of Darbari Seth (then it was familial, now it is professional) is quite telling. The book does not get bogged down in technicalities of soda ash production or factory statistics. Instead, it focuses on the people, the economics of the business, the industrial milieu, the acquisitions (notably the buyout of General Chemicals Industrial Products of the US that catapulted Tata Chem into the global league) and strategies – some that worked, some that didn't.

To be honest, one did pick up the book with some suspicion, given that it is produced by the Tatas, and written by their corporate communication folk (and even published by a Tata company). It could well have turned out to be a one-sided eulogy. Fortunately, however, the book does not shy away from talking about some of the controversies – the speculation surrounding Manu Seth's exit or the strategic mistakes the company made. Though, the bias of reporting these events is still always on the Tata side.

But then, very few Indian companies have bothered to document their stories and a rich wealth of archival information and pictures lie lost on some dusty desks. At least, here it has been unlocked for students of business history to enjoy. ♦

CHITRA NARAYANAN



Salt of the Earth

By Philip Chacko and Christabelle Noronha

PAGES: 350 (Hardcover)

PRICE: ₹599

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PRIZES AND PULLOUTS

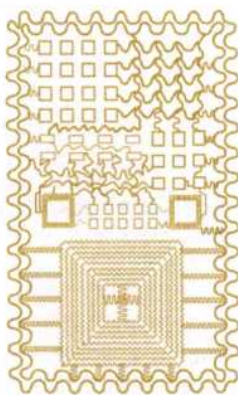
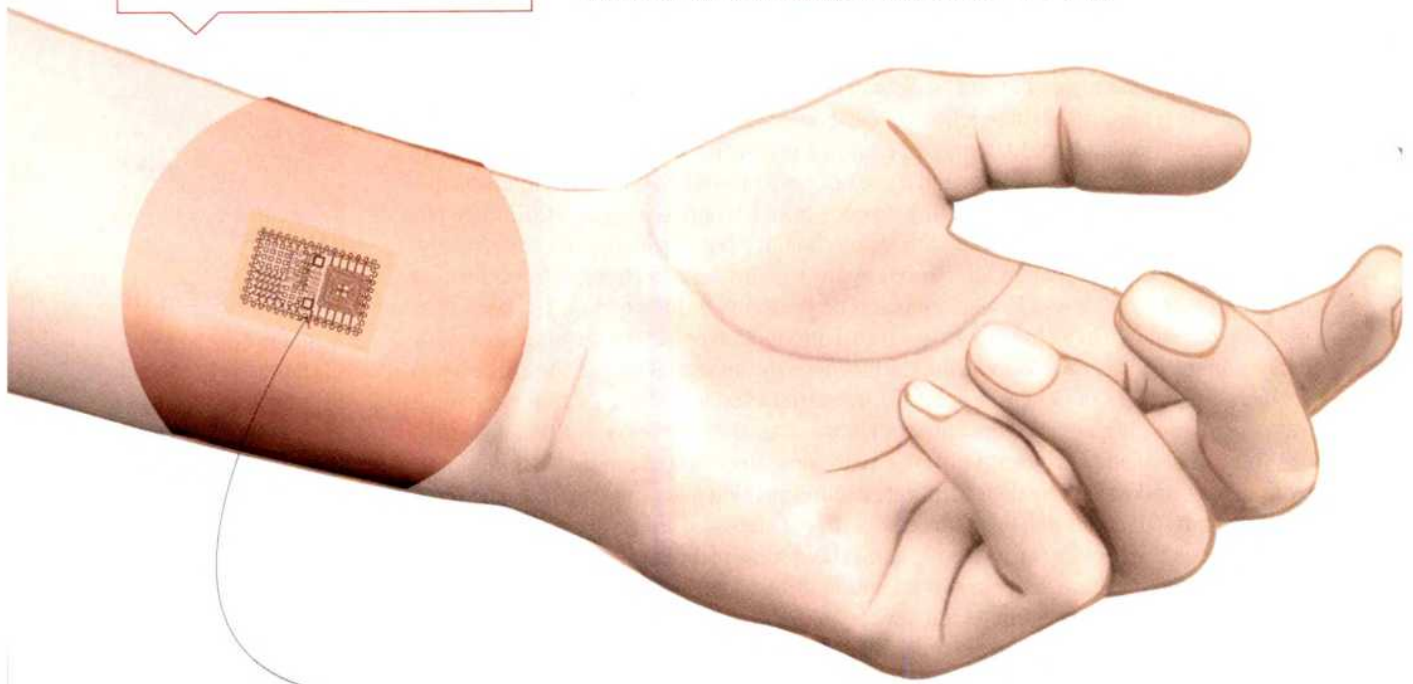
Indian-American writer Jhumpa Lahiri, known for her lyrical prose, won Asia's richest literary prize – the \$50,000 DSC Prize for South Asian Literature 2015 – for her novel, *The Lowland*, pipping Bilal Tanweer (*The Scatter Here is Too Great*), Kamila Shamsie (*A God In Every Stone*), Romesh Gunsekera (*Noontide Toll*) and Shamsur Rahman Faruqi (*The Mirror of Beauty*). But amid the exultation over Lahiri's win at the Zee Jaipur Lit fest, there was gloom over the news that sponsors DSC were going to withdraw.

BANKABLE BOOKS

Are publishers passionate hobbyists rather than viable business people? At one of the Jaipur Bookmark discussion series running parallel to the Lit fest, panellists debated whether publishing always needed to be subsidised. Manas Saikia, Founding Partner and MD of Cambridge University Press India, recounted how a banker told him that if he had blank paper he could finance it, not a printed book, as he did not know whether it would sell or not. Scribe's Founder, Publisher and CEO Henry Rosenbloom felt that books were a high-risk, high-reward business and bankers were wary as nothing was a sure bet. But there was one ground rule, he said: "In books, instant success is dangerous and repeated failures is terminal."

MC10 Biostamp Sensors Thinner Than Band-Aid That Stretch With Skin

With the integrated circuit at their core, electronics have followed Moore's law to become more efficient. But their form has remained the same: relatively brittle. MC10, a Massachusetts, US-based company, armed with intellectual property from the prolific John Rogers' lab in the University of Illinois at Urbana-Champaign, has acquired the capability for stretchy, biocompatible electronics. It has honed this platform to create the Biostamp, which monitors biometrics and hangs on to the skin like a sticker. MC10, as Rogers tells it, is shorthand for materials company 10, since its founders previously worked with nine companies. Its product, the Biostamp, provides an intriguing pointer to how electronics will integrate with the human body.



For adhesion, the Biostamp uses both disposable stickers and reusable patch-based systems

1 BACK STORY

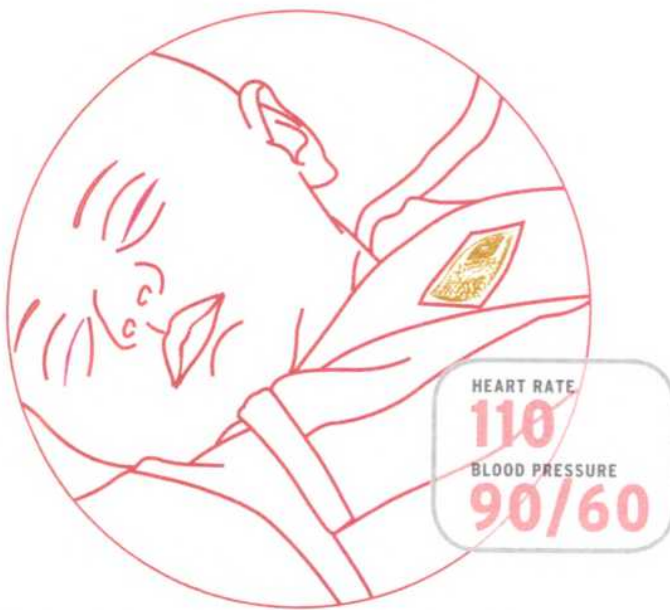
In 2008, research by Rogers' lab caught the attention of venture capitalists. Commercialisation based on two papers the group published that year – one on bendable electronics and another on a camera modelled on the human eye – was on the agenda. MC10 soon steered away from the camera as it was technically less feasible and decided to focus on wearable devices and surgical tools. About a year later, the company had agreements with Reebok to build a head impact monitor and with surgical devices company Medtronic. In 2011, when Rogers' group published papers on bendable as well as stretch-

able electronics, it provided the prototype for another kind of device – the Biostamp.

2 HOW IT WORKS

Make materials thin enough and they become bendable. The materials used by Rogers are a thousand times thinner than traditional integrated circuits. This leads to the bendable property of the class of devices made from them.

For integration with the skin, what's required is material that not only bends but also stretches. More specifically, that material has a bending stiffness and an elastic moduli comparable to skin. "That



The Biostamp can monitor the heart rate and blood pressure of infants, and send that information to an app on a smartphone

turns out to be really important because if you don't have the modulus in the same range as the skin then the interfacial adhesion becomes problematic," says Rogers.

To achieve this, the thin structure is cut into an open mesh-type geometry and encapsulated in a rubbery, elastic material. The mesh structure, says Rogers, can buckle and deform in a way that doesn't fracture the brittle circuit materials. It resembles a conventional circuit structure but with wavy lines instead of straight ones.

When Rogers' group first began thinking about a skin-mounted device, it began by asking what's already available. The paradigm it kept in mind, surprisingly, was a children's temporary transfer tattoo. "It provided a pretty clear in-goal," says Rogers. "The adhesives and their biocompatibility with the skin had already been proven." This led to the incongruity of finding a pirate tattoo in the high-impact journal *Science*, starting with his patched eye in multiple panels. It also piqued the US government's interest, which wanted to know how

such devices could be concealed.

These prototypes eventually led to MC10's Biostamp, the product it refers to on its website as a seamless sensing sticker. For adhesion, the Biostamp uses both disposable stickers and reusable patch-based systems. The sensor can measure



L. Brian Stauffer/ University of Illinois News Bureau

"We wanted to create an integrated circuit and sensor platform that had all of the physical properties a transfer tattoo had"

JOHN ROGERS
Co-founder, MC10

biometric data from the heart, the brain, the body temperature as well as movement. It powers itself using thin film battery technology, according to the website, and charges wirelessly – similar to what is available with RFID patches.

3 LEARNING CURVE

What was coming out of the lab was a technology with applications across a broad range of industries – from surgical tools, to diagnostic devices in a hospital, to long-term implants, to cameras, to industrial and military applications and cosmetics. But, being a small company, MC10 needed to prioritise and hunker down to bring a streamlined product to the market. "I don't know [if] there is a good example of a start-up type entity being able to do dramatically different classes of products simultaneously," says Rogers. "That's something I think MC10 has had to struggle with."

4 PLATFORM PITCH

The Biostamp is a versatile platform that can be modified for different body sensing requirements. For example, MC10 is collaborating with the cosmetics giant L'Oreal to create patches which sense how hydrated the skin is. Another example is a patch that can monitor the heart rate of infants, and send that information to an app on a smartphone. Yet another is monitoring biometric data for high-performance athletes.

5 FUTURE PLANS

MC10 appears keen on medical diagnostics as a next step. That is, catheters and implantable devices and perhaps microfluidics at a later stage. Rogers is looking at new ways to power these devices, including extremely efficient PV cells which can even draw power from ambient lighting. ♦

VIRAT MARKANDEYA

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Quotient Consultancy

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Location: Mumbai

Job ID: 15756776

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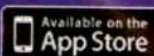
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Description: Looking for Area Sales Manager for one of their Specialty division



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Nichepro Technologies

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Location: Bengaluru / Bangalore

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Quad One Technologies Private Limited

Business Development Executive

Location: Hyderabad / Secunderabad

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Description: Lead generation & new business development, Building relationship with new & existing clients, Developing & delivering business development strategies etc.



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Vitasta Consulting Private Limited

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Location: Bengaluru / Bangalore

Job ID: 16309617

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Location: Kolkata

Job ID: 16305691

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UnitedHealth Group

Manager - Accounting

Location: Hyderabad / Secunderabad

Job ID: 16291413

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**dEEVOiR Consulting Services Private Limited**

Assistant Manager-Finance

Location: Mumbai

Job ID: 16368696

Description: CA with 2.5 to 3 years of post-qualification experience, Experience in Finalization of accounts, Audit etc.

**Ikya Human Capital Solutions Private Limited**

Finance Analyst

Location: Bengaluru / Bangalore

Job ID: 16367173

Description: Responsible for verifying and settlement of loan applications within a specified TAT.

NTTF

Accountant

Location: Bengaluru / Bangalore

Job ID: 16305047

Description: Conciliation of bank, Calculation of TDS and Service tax in Tally package, Entry of payment Received and Paid, Maintain of all documents etc.

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DEEPIINDER GOYAL (left) and **PANKAJ CHADDAH** were one of the biggest newsmakers in January 2015. The reason: Zomato, their Gurgaon-based online restaurant listing guide, acquired Urbanspoon, the US-based food portal, its sixth acquisition in as many months, for an estimated \$60 million. "The acquisition will give us leverage in six countries – the US, Australia, Canada, the UK, Ireland and New Zealand," said Goyal, adding: "It helps us increase our footprint and consolidate the market." Zomato has been one of India's most aggressive start-ups and is now sizeable enough to compete with US-based Yelp, the dominant restaurant discovery company globally. Goyal seems excited at the prospect of taking the fight to Yelp. In a blog post, he wrote: "After all, like Mark Twain famously said, it isn't the size of the dog in the fight, it's the size of the fight in the dog."

GOUTAM DAS



**Deepinder Goyal (L)
Pankaj Chaddah**
Co-founders, Zomato

Beyond Agni

On August 20, 2014, Prime Minister Narendra Modi, while giving away the Defence Research & Development Organisation (DRDO) awards, called for "extensive involvement of the youth in defence research to ensure India remained at the forefront of defence technology". Few would have thought that he was, perhaps, also implying that the best way to infuse change is to begin at the top. The government took many by surprise with its decision on January 13, 2015, to terminate the contract of DRDO head **AVINASH CHANDER**, 64, the "chief architect of the Agni series of ballistic missile systems". Chander, who had retired as DRDO's Secretary-cum-Director General in November remained in service on a 18-month contract, was a taskmaster and a person keen on indigenisation.

E. KUMAR SHARMA



Avinash Chander
Former chief, DRDO

A Classic Act

Even as he divides his time between Catamaran Ventures (the investment arm he set up with his father, Infosys founder Narayana Murthy) and his other interests, including computer science research, **ROHAN MURTY** has instituted a \$5.2 million (₹32 crore) endowment at Harvard to set up the Murty Classical Library. "The endowment was actually set up four years ago. The first works are being launched now. The titles have been selected from across languages and spectrum. The only agenda is to showcase the kind of scholarship and content that has been created in the country across thousands of years. We want everyone to read them and, thus, will make it as affordable as possible," says Murty, 32.

VENKATESHA BABU



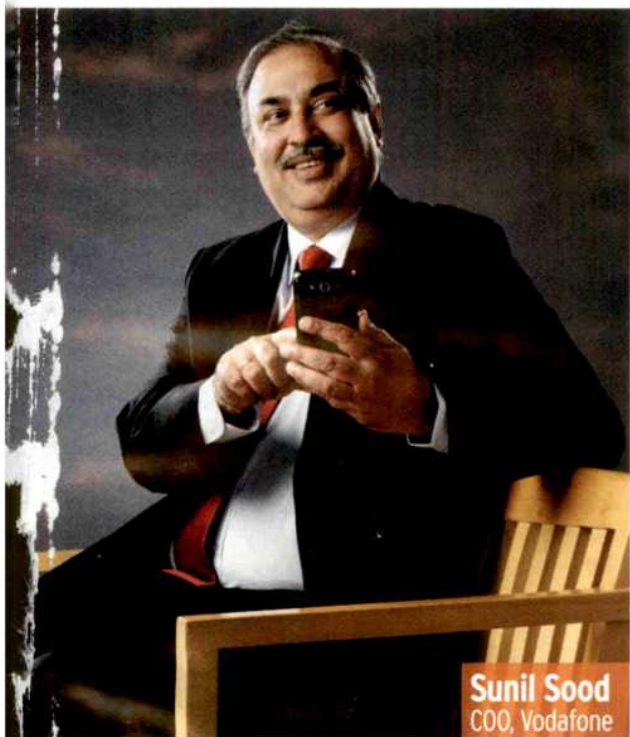
Rohan Murty
Founder, Murty
Classical library

VIVAN MEHRA

Vodafone India's New Face

Marten Pieters, CEO of Vodafone India, could not have found a better successor in **SUNIL SOOD**, currently the company's Chief Operating Officer. Sood, who has been with Vodafone since 2000, is the oldest employee in its leadership team. He was earlier with Orange, which had operations only in Mumbai, and was later acquired by Vodafone. For a long time, Vodafone was known to be the operator for urban users. Sood played an important role in growing its rural presence. "The younger generation in the rural areas would like to use it for entertainment; that is how they stay connected with the rest of the world," said Sood in a recent interview. Sood still remembers the celebration party when Vodafone hit 200,000 subscribers. Now Vodafone has 174 million users. At 53, Sood has age on his side to provide a stable leadership.

SUNNY SEN



Sunil Sood
COO, Vodafone

RACHIT GOSWAMI

Orbital Shift at ISRO

The Indian Space Research Organisation (ISRO), the country's leading space research agency, has a new leader. On January 14, 2015, **ALUR SEELIN KIRAN KUMAR** took over as its head, replacing K. Radhakrishnan. ISRO describes Kumar, who began his career at its Space Applications Centre in Ahmedabad in 1975, and became its director in 2012, as a man who was "instrumental in evolving the successful strategy to steer the Mars Orbiter Spacecraft towards planet Mars as well as its Mars Orbit Insertion".

E. KUMAR SHARMA

A.S. Kiran Kumar
Chairman, ISRO





DANESH JASSAWALA

NIMESH SHAH, MD & CEO, ICICI Prudential AMC, talks to **MAHESH NAYAK** about the importance of value investing and his company's performance, among other things. Edited excerpts:

What was the idea behind the Value Investing Summit organised by the fund house in December?

Globally, value investing is one of the preferred investment themes, but in India, it contributes merely five to six per cent of the total assets (as compared to 45 per cent in the US). We strongly believe that value investing is a suitable way for investing over the long term and can work well in a growth market like India. The summit is a platform to showcase how this classic investing paradigm blends with the present market environment, and why it should form the core of one's investment philosophy.

When we talk about India being a growth market then shouldn't one be chasing growth than value/momentum?

In essence, the idea of value investing is deeply ingrained in our society. The culture of value buying is already there in India, with consumers rushing to hunt for a bargain or buying products at attractive discount offers. Getting something at a bargain is a predominant value investing principle. In a growth market like India, value investing works well because the prices in the market are set by a growth investor. Therefore, when a growth stock becomes a value stock, a growth investor sells it at a price

at which the value investor finds it reasonably cheap; and, when the value stock becomes the growth stock, the price is again set by the growth investor, who then buys it at the price at which the value investor wants to sell.

What has been the change in the last seven years since you joined ICICI Prudential Mutual Fund?

At ICICI Prudential AMC, the key focus area has been to evolve the organisation into a holistically investor-centric one. Today, we offer investors a product suite that caters to their every possible need and has the potential to create long-term wealth. The result of our approach is exhibited in consistent performance – 100 per cent of our AUMs have beaten the benchmark across investment horizons. Besides this, to know how satisfied our investors are, we have initiated a drive of tracking the 'happy customers'. It gives us immense satisfaction to see that 100 per cent of the equity customers are 'happy customers'.

How do you plan to grow the company and stay relevant?

We help guide the common man in converting his savings into investments and help him achieve his financial goals. We are confident that our process-oriented investment approach will help us sustain consistency in performance of our funds in the years to come. ♦

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